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VOLUME XVIII, No. 1 MARCH, 1951

PROCEEDINGS

of the

FIFTEENTH ANNUAL MEETING

CHICAGO, ILLINOIS

December 27, 28, 29, 1950

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Part I — Papers Read at Annual Meeting

Visual Aids in Life Insurance Teaching

by

R. Wilfred Kelsey, Director, Educational Division
Institute of Life Insurance

Visual aids in insurance teaching might well have originated about 5,000 years ago on the banks of the Yangtze River when Chinese merchants frequently saw their ships and cargoes completely destroyed when caught in the river rapids. In discussing their losses which often put individual merchants into bandruptcy, these men hit upon the idea of dividing each merchant's cargo amongst a number of different boats. In this way each boat carried portions of the cargoes shipped by a number of merchants. No one boat carried the entire cargo of any one merchant. Thus, if a boat was lost, a merchant lost only a small part of his cargo rather than all of it.

Another example of visual teaching in early insurance comes to us out of the pages of our history books where we learn that early English merchants signed up on the blackened walls of London coffee shops for shares in the risk of sending a shipment of goods overseas to a foreign country. On these blackened walls, now called blackboards, were recorded not only a description of the goods to be insured; but when a ship was lost in transit, that information was also recorded on the walls together with the owner's statement of his loss. In this way, early insurance underwriters learned by experience, sometimes bitter experience, something about the principles of this new business that was to grow to such tremendous proportions.

Today's Students Lack Experience

The students in our classrooms today are handicapped because they do not have the benefit of actual experience with insurance such as the early Chinese and English merchants secured through the "school of hard-knocks." In general, today's students learn mainly through studying their textbooks, listening to lectures and participating in group discussion. We all know how easily we forget many of the things learned in this way.

In his book, *Audio Visual Methods in Teaching*, Edgar Dale cites three reasons why we forget what we learn in school:

"1. We forget when what we are to learn *does not seem important to us*, either because it lacks importance in itself or because we fail to see any apparent relationship between this new piece of information and things that we already know.

2. We forget when *we do not see clearly what it is that we are supposed to be learning* or when we are not properly shown how to use this new item.

3. We forget when *we do not make use of what we have been asked to learn* in our daily living."

How then can we develop more effective learning? Dale cites three conditions under which learning proceeds best.

"1. Proper motivation — the why.

2. Clear goals — the what.

3. Adequate use — the how."

Dale goes on to say that "the road to fruitful learning is well paved with concrete experience. Education's greatest weakness appears when pupils are made to memorize general rules and concepts when they have never had the experience to understand them".

William James once said "For when all is said and done, the fact remains that verbal material is on the whole the handiest and most useful material in which thinking can be carried on. Abstract concepts are far and away the most economical instruments of thought. And abstract conceptions are fixed and incarnated for us in words."

Education can move from the abstract to the concrete through the use of a wide variety of teaching aids. In turn, students can get a better grasp of abstract concepts if they have a wide range of rich and meaningful experiences for background.

Since actual experiences in the field of life insurance are hard for students to come by, visual aids can be an effective substitute. Moreover, we should remember that psychologists tell us that approximately 90% of learning comes to an individual through his eyes, 5% through his ears, and 5% from taste, smell, and feeling.

You have all heard, of course, of the experiences of the armed forces during the last war in training military personnel with the help of visual aids so that they learned a great deal faster and retained the information a great deal longer than had not the visual aids been used.

VISUAL AIDS IMPORTANT IN LIFE INSURANCE TEACHING

It seems to me that the use of visual training devices in life insurance teaching is particularly important because in our business we deal in abstract concepts. In working on the development of visual teaching devices at the Institute, we never cease to envy people in the manufacturing industries who can incorporate in their visual teaching devices shiny new automobiles, fancy electrical gadgets for the home, interesting manufacturing processes, and searching for raw materials in remote parts of the world. While they are engaged in these fascinating pastimes, we are tearing our hair out trying to develop meaningful visual symbols for our rather abstract concepts which are so abundant in the business of life insurance.

But because we deal in abstract concepts in life insurance, it is even more important for us to use visual training devices than it is for people in the manufacturing industries. In spite of this fact, I regret to say that the life insurance business has been rather slow in developing the use of such devices. Probably this is partly because of the difficulty in illustrating our concepts with meaningful symbols.

WHAT ARE SOME OF THE VISUAL TOOLS?

You have at your places a list of audio visual training aids together with a brief outline describing the planning, preparation, use, and summary which should have an important part in the utilization of such training tools.

I want to discuss with you this morning some of these training aids and demonstrate a few of them as time permits.

First on this list of training aids are *models*. These, of course, are chiefly applicable to the manufacturing industries and would rarely have a use in life insurance teaching.

Skit plays are used quite a bit in high schools. One playlet, entitled "BUT DEFINITELY" was produced several years ago by the Institute and has been widely used in high schools throughout the country. Such devices, however, would hardly find a use in college or university classrooms.

Next we come to the *demonstration*. It would seem doubtful that this device could be used to any great extent except in salesmanship courses where demonstrations of selling techniques and the sales interview would be quite useful.

The *Field trip* is a device you probably all use in taking your students through agency offices or home offices of life insurance companies. For instance, I know that the Wharton School each year takes its graduate students to New York to visit a life insurance company. This kind of device is an excellent substitute for actual experience working in the company and gives students a new insight as to what goes on within a life insurance organization.

In connection with the *exhibits*, you probably all make use of sample policy forms, application blanks, the company's annual reports and financial statements, mortality tables, etc. All of these are very useful in teaching life insurance fundamentals. At the Institute we get a great many calls from high school teachers and college professors for sample life insurance policies, application forms, etc., which they can make use of in the classroom. These devices are very popular, again for the reason that they tend to substitute for a lack of actual first hand experience on the part of the students.

MOTION PICTURES

Now we come to *Motion pictures*, one of the most widely used teaching devices of all. In spite of this fact, the life insurance business unfortunately has made little use of motion pictures. In fact, while such films as General Motors have turned out dozens and dozens of motion pictures, you can almost count on the fingers of one hand, the number of motion pictures which have been produced by the life insurance business for public consumption on the subject of life insurance.

Motion pictures are a very useful visual teaching device because they provide action, motivation, and both sight and sound. They have some very important advantages which I would like to enumerate briefly.

For one thing, the individuals viewing a motion picture tend to identify themselves with the people portrayed in the film. In this way, members of the audience get a great deal of meaning out of a good motion picture. Motion pictures have the further advantage that they are shown in a darkened room where there is 100% concentration on the screen with few, if any, distractions. Because the motion picture combines self-identification, sight, sound, and motion, it comes the closest of any teaching device to being a 100% substitute for actual experience.

In spite of the advantages, motion pictures also have a number of disadvantages. It is not possible for the instructors to change the pace of a motion picture. Once the film is started, it must either be kept going or turned off. Movements in the film may be too rapid for accurate comprehension of some students. The picture may cover too much ground. It cannot be held still, neither can it be backed up. As long as the picture is going on, it is difficult for students to ask questions. By the time the picture has finished, they may have forgotton their questions.

EXAMPLES OF TEACHING MOTION PICTURES

Without attempting to describe each film, I just want to mention a few pictures which have been made in the realm of life insurance teaching films. One of these is called SHARING ECONOMIC RISKS and was produced by Coronet Instructional Films, primarily for high school students. A second is called HOUSE ON THE ROCK and was produced by the Prudential Insurance Company as a means of portraying and explaining various home office procedures for the benefit of their field agents. A third picture is called THE SEARCH FOR SECURITY and was produced by the Institute primarily for high school and college classrooms.

A fourth film, LIFE INSURANCE OCCUPATIONS, was produced by Vocational Guidance Films. It deals with job opportunities in various departments of a life insurance company home office. This picture was made for high school students for use in connection with vocational guidance programs.

EXAMPLES OF SALES TRAINING FILMS

There have been a number of sales training films made for or by the various life insurance companies. As you no doubt know, the Insurance Research and Review Service in Indianapolis has made three pictures entitled ONE MAN'S MEMORIES, CASES IN POINT, and AN ESTATE IS BORN.

The New York Life Insurance Company has made two pictures called TAILOR-MADE DOLLARS and STRICTLY BUSINESS.

The Prudential Insurance Company has made two sales training films entitled ANOTHER CUP OF COFFEE (Prospecting) and THE PROFESSIONAL APPROACH (Programing).

This group of pictures may not be particularly pertinent to your needs because they are primarily designed to teach agents the techniques of selling life insurance.

ANNUAL REPORT FILMS

Then there are several motion pictures which have been made by individual life insurance companies as a means of reporting to the public and to their own policyholders on the progress of the company during the preceding year. The most recent of these films is entitled "NEWSWEEK LOOKS AT LIFE INSURANCE" and was produced by the Metropolitan Life. Another example of such a film is one called "100 YEARS OF SECURITY" produced by the Penn Mutual Life.

PUBLIC ATTITUDE BUILDING FILMS

Since the job of the Institute of Life Insurance is mainly to build a better understanding of the function of life insurance and the service of the life insurance agent, most of the Institute's films can be classified as attitude building pictures. These films include the first one produced by the Institute and called "YOURS TRULY, ED GRAHAM." Another picture produced in 1940 and still very popular is called AMERICAN PORTRAIT. The third film is entitled "FOR SOME WATCH." This last picture was designed to show the services of a good life insurance agent in his community and to build a public appreciation of the services rendered by a good life insurance agent. As you know, this picture stars an actual life insurance agent, Jack Sutton of the Guardian Life Insurance Company in Oneida, New York. The stories in the film are concerned with the actual experiences of three families who are clients of his. This picture has proven very popular in schools and amongst adult groups.

Each of these three films has a certain limited value to schools and colleges for teaching purposes because each one portrays to a certain extent, how life insurance operates for the benefit of policyholders under various circumstances.

FEW TEACHING FILMS ON LIFE INSURANCE

Why is it that there are so few motion pictures in existence which can be classified as teaching films on life insurance? In all probability, it is because there has been little demand from either education or from the life insurance companies for films of this character. Until recent years, secondary schools have devoted very little time to the study of life insurance. Never to my knowledge have they expressed a demand for life insurance films which did not already exist. However, when the Institute has produced pictures for their use, they have used them eagerly.

In colleges and universities, while the teaching of life insurance has grown tremendously in recent years, there has never been the extensive use of visual aids that there has been in the secondary schools.

As far as the life insurance companies are concerned, most employee training programs spend very little time on the fundamental principles of life insurance. When employees wish to study the subject in greater detail, they usually go outside the home office to some educational institution and take the L.O.M.A. courses. In these courses, the use of visual aids is entirely up to the individual instructor. This results in extensive use of visual aids by a few instructors who are

interested and experienced in the use of such materials. Frequently these aids are developed by the instructor himself. The L.O.M.A. people tell me, however, that few of their classes use visual aids to any great extent.

As far as agent training is concerned, most of the companies conduct their training programs in the various agencies of the company throughout the country. Here the training process is up to the individual general agent, manager, or supervisor. Rarely are there more than two or three men in any given group. When so few people are being taught, there is not much incentive to use visual aids, particularly films. Furthermore, the Individual agency man is not trained in the use of visual materials, particularly films, nor does he usually have the projection equipment necessary for the use of motion pictures.

Another reason for the scarcity of teaching motion pictures on life insurance is the fact that the cost of producing such films is too great for the average company. Many people feel that such films should be produced on an institutional basis by associations. As we have already seen, only the very largest companies have produced their own training films.

Actually, such films could be produced by smaller companies if they would hire capable individuals to produce pictures within the company rather than going to outside commercial producers. Or, such films could be made on a cooperative basis by associations and voluntary groups of companies if these people could get together on common denominators for training films. The trouble is that each company has its own sales tools and its own programming approach, along with individual training techniques, all of which they wish to emphasize in any films they might develop.

Another way in which motion pictures for teaching purposes could be made inexpensively is in large universities where there are film production centers. Examples of such institutions are the Universities of Illinois, Indiana, and Ohio State.

Teaching films on life insurance would also be made by educational film producers such as Coronet Instructional Films and Encyclopedia Britannica films if there were enough demand for them from schools, colleges, and life insurance people.

PROPER UTILIZATION OF UTMOST IMPORTANCE IN USE OF FILMS

Before leaving our discussion of motion pictures as a visual aid, we should stress the fact that the proper utilization of these films is of great importance if they are to serve as a useful teaching tool. In this connection, I would like to refer you to the check list for using films which you will find at each of your places.

Many teachers feel reluctant to use films because they are not familiar with how to use them or with the projection equipment which is necessary. However there are a number of good books on the use of teaching films. These books can be readily had in most college libraries. There is no great mystery in the use of films in the classroom. A

few simple rules need to be followed and since most universities have film libraries and audio-visual aid centers, it is possible for a teacher to get help from these sources in order to make a start.

Briefly, the basic principles for proper utilization of films are as follows:

1. Preview the film.
2. Prepare the room for a film showing.
3. Prepare the audiance for what they are to see.
4. Show the film under favorable conditions.
5. Conduct a discussion of the film following its showing. This last point is of major importance.

FILMSTRIPS AN EXCELLENT TEACHING AID

The use of 35mm. silent filmstrips as a teaching device is growing very rapidly in this country at the present time. As you know, a filmstrip consists of a series of 30 to 50 still pictures on a strip of 35mm. film. Each picture carries its own self-explanitory caption. There is a continuity of thought from frame to frame.

There are also 35mm. sound slide films, to which I will refer briefly. These involve a strip of film on which there are still pictures, as with the silent filmstrip. However, a sound slide film is accompanied by a record which is played on a regular phonograph or a special device which combines a record player with a filmstrip projector. Sound slide films are very widely used for sales training and as selling tools in industry. However, because of their expense and difficulty in shipment, as well as their requirement for more bulky projection equipment, they are not used to any great extent in education.

Getting back to the silent filmstrip, it is relatively inexpensive to prepare or to buy. A filmstrip can be prepared from home made art work or photography for as little as $300 which brings it within the scope of almost any institution whether a high school, college, or life insurance company.

The filmstrip is very easy to use, the projection equipment is light in weight and relatively inexpensive to purchase. The upkeep is almost nil.

Because of their versatility, the filmstrips have a number of advantages over motion pictures as a teaching device. One picture at a time can be shown for as long as desired. The film can be backed up so that previous pictures can be reviewed. The teacher can read the text, discuss the film, and the class can ask questions while the film is being shown.

TWO EXAMPLES OF TEACHING FILMSTRIPS:

Now I'd like to show you two examples of silent 35mm. teaching filmstrips. The first one is entitled HOW LIFE INSURANCE OPERATES and has just been completed by the Institute. It is designed as a teaching filmstrip for high school classroom use. It attempts to por-

tray life insurance in terms of the students' interests and their level of understanding. In watching the film, you will note how life insurance is compared to a hypothetical book insurance plan in terms of a student's own personal experience.

Also, please note how abstract terms are explained through the use of cartoon drawings and symbols designed to hold the attention of students on an otherwise dull subject. Incidentally, this is one of the greatest problems we have in the high school teaching of life insurance. High school students are not customarily interested in the subject of life insurance. They feel that it is something their parents should worry about, but why should it bother them. One of the most difficult tasks we have at the Institute is developing material which will hold the attention of high school students and teach them something about this subject even though they have no particular desire to learn. College students, on the other hand, being more mature, are in a better mood to learn something about life insurance. Also, I presume that in most instances, students taking your courses in life insurance have elected these courses because they want to learn something about this subject. Consequently, you college professors do not have the problem of motivation with which high school teachers are plagued.

(Filmstrip shown)

Now I want to show you an excellent filmstrip produced at the University of Illinois under the direction of Dr. Mehr and Dr. Wales. This filmstrip is entitled PLANNING YOUR LIFE INSURANCE.

Here again you will note that this filmstrip appeals to high school students in terms of their own interests and experiences. Instead of drawings, you will note that this filmstrip uses photographs of actual people. This is a technique preferred by many experts in the visual education field.

In watching this filmstrip, you will see that emphasis has been placed on intelligent planning in home and family life, and that it it is necessary to apply the same type of planning to the basic needs of a family for protection. Please notice also that the families in this picture are of modest means, which is an excellent approach to high school students. Another interesting factor about this film is that the agent and his services are brought in unobstrusively near the end of the film which at the same time serves to emphasize the need for what the agent has to offer.

(Filmstrip shown)

Although six filmstrips are now available on life insurance fundamentals, three of them from the University of Illinois and three from the Institute, I personally believe that we have only scratched the surface and that many more are needed on the various phases of life insurance.

OTHER TRAINING DEVICES

Because time is short, I am going to skip over most of the other training devices listed. You probably wouldn't have much occasion to

use recordings, or still pictures, and you are already experts in the use of the *blackboard.*

CHARTS

Since a good many charts have been prepared for teaching various life insurance concepts, let us discuss these for a few moments. Some very excellent examples of these charts are the ones which appear in the L.U.T.C. training manuals with which most of you are probably familiar. Other examples of charts which can effectively be used in life insurance teaching will be found in various basic training manuals for agents prepared by individual life insurance companies.

In addition to these, a number of companies have prepared charts for use in their home office employee training programs. These charts cover all phases of life insurance fundamentals: mortality tables, and level premiums; legal reserves, policy forms and settlement options: all the way down through programming, and dovetailing social security benefits with life insurance.

SOME WALL CHARTS FOR HIGH SCHOOL CLASSROOMS

I have with me a series of four wall charts prepared for classroom teaching of life insurance. These charts are entitled A HISTORY OF 10,000 LIFE INSURANCE POLICYHOLDERS, LIFE INSURANCE DOLLARS AT WORK, HOW AMERICA'S FAMILIES USE LIFE INSURANCE, HOW LIFE INSURANCE POLICIES MEET FAMILY NEEDS. Also, I have several of the Graphic Facts charts which are prepared for the use of editors, thought leaders, libraries, and teachers.

All of these charts illustrate various concepts about life insurance and aid instructors and students alike by helping illustrate textbooks. In some cases, they provide more up to date information than the textbooks and help to fix these concepts more permanently in students' minds.

Like motion pictures and filmstrips, charts are expensive when produced commercially by professionals in those fields. However, they can also be produced very inexpensively by art departments on university campuses or even by professors and students themselves, drawing and coloring each chart individually by hand.

IN CONCLUSION

From this discussion you can see that visual aids in life insurance are not independent teaching devices but rather they are supplementary tools to help students learn lecture and text matrial faster and retain their knowledge longer. By use of visual aids, abstract concepts can be made more meaningful and can be brought closer to the realm of actual experience.

Visual Aids in Property-Casualty Insurance Teaching

by

H. Paul Abbott, Director of Education
North America Companies

For some unknown reason audio-visual aids like bonding (fidelity and surety) have taken unto themselves an aura of mystery. Those who are expert in both would lead us to believe that they have mastered a very difficult and complex science. Actually, audio-visual aids are nothing more than tools of education and training. There is little excuse for ever letting them become ends in themselves.

If we could live long enough and be omnipresent, in time we would experience everything and gather to ourselves a terrific fund of knowledge. Obviously, we are on this earth for but an infinitesimal part of total time and are confined to very small portions of our own globe, let alone the impossibility of travel throughout the universe. Worse than that, we are capable of experiencing many things without the capacity to comprehend their meanings or their relative significance in the sum total of all experience. Therefore, we must have scholars, education and training to pass on recorded experiences and their import. This produces the whole problem of communications.

Nothing is more vivid than actual experience, for in it we bring all our sensory faculties to bear. In the recounting of experience only certain senses are stimulated and in certain limited combinations. Therefore, comprehension and retention are impaired. The science of audio-visual aids (if you can call it a science) seeks to remedy certain deficiencies which education and training suffer when compared to actual experience.

The simple answer as to whether or not a certain audio, or visual, or audio-visual aid should be used is whether or not it is needed to accomplish comprehension or to improve memory retention. If it adds nothing, or appreciably nothing, to comprehension or retention, it is probably nothing more than showmanship or an admission of conceit or laziness on the part of the instructor.

Recently in New York, I attended a two-day clinic on employee relations, appraisal and merit rating. It soon became apparent that nothing new had been added except that we were subjected to a very complete demonstration of the use of almost every type of visual aid in an attempt to cover up the paucity of information being conveyed. On the stage was a movie screen, flat charts, flip charts, flannel board and transcription devices. Movies were shown. They were not too

pertinent but they used up time. Slide films and regular slides were interspersed with role-playing. The actors in the role-playing clearly demonstrated that they knew more about acting than they did about personnel problems, and that is not to say the acting was good.

Just for fun, let me burlesque their performance. Let us substitute insurance problems for personnel problems. Our topic is co-insurance. (Slide shown). Our problem is the word "penalty." (Slide shown). People are human. (Slide shown). They do not like to be penalized. (Slide shown). Insurance companies want good public relations. (Slide shown). A satisfied policyholder (Slide shown) is a prospect for more insurance and a medium of good advertising for the company. Therefore, we must not penalize him. (Slide shown). Rather, let us offer him the privilege of sharing the risk with us. (Slide shown). We shall offer him a rate which decreases with the higher percentage he allows us to carry. (Slide shown). Of course, if he fails to carry insurance to value we shall have to—I almost said penalize him at the time of the loss. What shall we say? (Slide shown). Ah, yes, we just shall not *give* him quite as much as he was expecting. (Slide shown). We shall be generous, as usual, but in this case not quite so generous. Easy, is it not? (Slide shown). But—

All we omitted was soft music in the background, hissing sounds when the word penalty was used, ringing bells and pistol shots to emphasize important points!

So we admit that audio-visual aids are overdone sometimes. At the same time, we must confess they are underdone—sounds faintly reminiscent of the porterhouse steaks we used to be able to afford.

When audio-visual aids are "underdone," it is usually because costs are prohibitive, or the instructor is lazy, or lacks imagination. Of course, it could be that the instructor uses his best audio-visual aids to perfection, his voice and personality. Apparently Socrates got along pretty well without Vu-Graphs, strip-tease charts or television. Incidentally, did you know that the U. S. Navy is using television rather successfully in training? I am sure we have all read of the use of television by surgeons. It seems a wonderful medium for bringing to large numbers of interns and doctors a close-up view of the surgeon's skill in action. I have often wondered how students seated in the amphitheatre could visualize what was actually being done within the incision.

Well, enough for general comments concerning audio-visual aids. Let us turn to our assigned topic, their use by property and casualty companies and service organizations today.

I have proceeded on the assumption that Clyde Kahler was not interested in a general and erudite discussion of audio-visual aids, their history and development. Nor have I assumed that this association would be interested in listening to 45 minutes of bragging about those aids used by the Education Department of the North America Companies. Rather, I have taken the liberty of concluding that you would

like to learn about those audio-visual aids used by those companies and organizations in the fore-front of training activities in our industry, and that particularly you would like to discover what aids could be used to liven your own college courses, whether they are available for such use and how you can go about procuring them. I know you will be interested in hearing about our training devices, but even more interested in those aids we use in our insurance educational efforts.

To this end, I wrote to more than 50 companies and organizations in the property and casualty field. As was to be expected, a high degree of cooperation was evidenced by a high percentage of response. Not all could make positive contributions and many were inclined to be overly modest concerning their accomplishments but all agreed upon the worth of the project and demonstrated a high degree of respect for your association.

Correspondence was followed up by visits to nearly 40 of these companies and institutions. I must thank you for the excuse you have given me and my associates to enjoy the privilege of these visits. I assure you we learned a great deal more than just what is being accomplished with the visual aids. We learned many stimulating things about insurance education and training in general, and we certainly enjoyed the associations. I recommend to you wholeheartedly the value and stimulation of such visits. After all, you fortunate educators have many vacation months available for such a grand tour! You would certainly be more effective in your university instruction if you were to have such experiences upon which to draw.

As you can well imagine, in our travels we gleaned far more information than can be included within the confines of this paper. I shall be able to do no more than touch upon the highlights. To remedy this, however, we have prepared a simple pamphlet to be distributed to you at the close of this session. In it we have listed under the various types of aids such subject matter as we think you might be interested in. We have tried to tell you "what aids are used," "who has them," "are they available to you" and "how you can go about getting them." I would caution you, however, that our time has been brief on this project: the list is far from complete. Many months, if not years, could be spent in such a compilation. This pamphlet is far from an authentic and complete catalogue. It is little more than a sample. But, I hope it may stimulate your association to take steps toward appropriate and thorough research along these lines. I know insurance education would profit greatly thereby.

As mentioned before, and as the result of the splendid cooperation given us by companies and other organizations, it is physically impossible to incorporate in this paper a detailed description of all audio-visual aids we have encountered during our visits to education departments and training schools. Inevitably, I shall run risk of offending some organizations because of my failure to highlight their activities. It has been an extremely difficult task to make selection of those things which would interest you most. When it came to organizing the

subject matter of this paper, we realized that we were creating a Frankenstein whose control would prove extremely difficult. Therefore, I apologize in advance for the inevitable slights which will follow. I beg the indulgence of my fellow training directors for the sins of improper emphasis which I may inadvertently commit.

When I was in Detroit visiting the Standard Accident Insurance Company, I saw one of the most attractive classrooms used in training by any of us. At one end of the room was a platform of ample size to display the many types of visual aids Duke Pierce uses. His assistant, Aimo Kartinen, very kindly offered to have a 35mm. kodachrome slide made picturing that platform and those aids. It seems fitting to begin our discussion of visual aids with that slide (slide shown). You will notice on the left the large graph, and next to it a chart showing a section of a Sanborn Map. To the center is a screen used for motion pictures, slide films, slides and opaque projection. Next to that on the right is a large flip chart, and on the extreme right what appears to be either a flannel board or an advertising display board. Back of all these is that very important aid, the blackboard. But, the most important audio-visual aid to learning is missing—the instructor. Let us put him in to complete the picture (slide shown). I hasten to add that this vulgar display of visual wealth was done at my suggestion. Standard Accident knows better than to confuse students by such an assemblage of platform distractions. Rather, each tool is used more or less separately as the need arises. (slide off).

With this picture of things to come as a visual introduction, let us first consider motion pictures. Mr. Kelsey of the Life Insurance Institute has given you an admirable presentation of the use of films as audio-visual aids. Therefore, I shall touch upon them only briefly and shall not attempt to show you any samples.

In property and casualty insurance, motion picture films are used for about eight different purposes—public relations, employee relations, sales training, insurance education, economic education, technical training, prevention, and personnel recruiting.

By far, the largest number of films is used for fire prevention and safety engineering. I can visualize only a selected few of these being used in college instruction. Some of the better ones, however, should be used to drive home to students the important fact that insurance coverage merely distributes the shock of wealth destroyed, whereas insurance companies and service organizations are vitally concerned with preservation of wealth by elimination of hazard, by prevention and minimizing of loss causes, and by salvage operations.

The N.B.F.U. films, of which there are many, offer an interesting selection for college use. I particularly recommend *These are the Facts, Texas City Comes Back, Crimes of Carelessness,* and *Approved by the Underwriters.*

These are the Facts is an excellent introduction to and over-all view of fire insurance. Almost every type of insurance activity is

portrayed. It stimulates the student's interest and serves as a jumping off place for a general insurance course.

Texas City Comes Back emphasizes the social effects of fire insurance. It is dramatic and authentic. It makes one proud to be associated with such a public service industry.

The most recent film released by the N.B.F.U. is *Fire on the Farm.* Unfortunately, I have not been able to preview it for you. However, it is very highly spoken of. The title gives ample clue to the subject matter.

Every student of insurance should know about the wonderful work of The Underwriters Laboratories. It is not possible, however, for all students to take a tour through the laboratories here in Chicago. Moreover, they need not. From personal experience, I can assure you that the film *Approved by the Underwriters* is more satisfactory than the actual tour. In the laboratories on any one day not all the various types of experiments can be seen in action, but in the film this is not so, for it combines the activities of many different days and offers a very complete and dramatic presentation. A new film about the Underwriters Laboratories, *Danger Sleuths,* will be released next month.

In the field of safety films, it is superfluous to make mention of the offerings of the National Safety Council. No doubt you are all familiar with them. Among insurance companies, in this line of activity, the work of the Aetna Casualty Company stands out. This company has its own film laboratory in which experts are constantly at work turning out new safety films for national distribution by their agents. Admittedly these films serve as valuable public relations media for both company and agents, but at the same time they serve a very vital purpose in making workers and the general public safety conscious. The long list of Aetna films is included in the bibliography of audio-visual aids which will be distributed to you at the close of this meeting. These films are available through any one of Aetna's numerous branch offices.

One of the most dramatic of all automobile safety films I had the privilege of viewing here in Chicago at the Lumbermens Mutual. "Last Date" is a Wilding Production carefully designed to combat "teenacide' on our highways. On any pretext I beg you to get it before your students. Its actual insurance educational value is questionable, but the message it carries is vital to all our young people.

Another safety film with an emotional punch, this time on the farm is *Miracle in Paradise Valley,* produced for the Sinclair Refining Company.

Every casualty company of any size and worth uses safety engineering films. Your students should know about this fine contribution of our industry. You will find the selection of films of this type a very broad one.

Another great contribution of insurance organizations is salvage operation. The insurance student should certainly know about it. *Men of Fire,* an N.B.F.U. film, portrays some of the activities of the salvage corps in fire insurance. As an excellent example of marine salvage, I recommend the Fireman's Fund film, *The Story of the Diamond Knot.* Once a student has viewed this extraordinary operation, salvage will take its proper place upon his insurance horizon. Another marine film is *Salvaging the Normandie* produced for the Merritt-Chapman-Scott Corporation. It does for the hull what *the Diamond Knot* does for cargo.

Salvage in casualty insurance is best illustrated by rehabilitation. One of the better examples of this, however, is to be found in a slide film of the Liberty Mutual Company called *The Story of Our Company.* This is an excellent presentation to which we shall refer later.

There are a large number of films put out by manufacturing companies as a means of selling their wares, and not infrequently they can be used effectively in either education or training. Examples of these are *Fire and Ice* by the Pyrene Manufacturing Company; *Explosion Danger Lurks* by the Watts Regulator Company; and *Cargocaire,* which concerns dehumidification of cargo spaces on ships, by the Cargocaire Co. Sorting and evaluating such films could be a research project in itself. The one thing I am sure of is that these films are readily available.

Unfortunately, and possibly because of the nature of the beast, there are very few films which deal directly with specific coverages. I realize these are the type which could be most useful to you. There has recently been released, however, an unusually fine film called *Found Money.* It deals with the personal property floater and is available through the National Association of Insurance Agents or the Inland Marine Underwriters Association. By all means look it over if you have not already done so.

Although it should be beyond our province, many of us who are responsible for education and training in property and casualty insurance have found it necessary to teach or at least review the fundamentals of economics in our training schools. As aids in such instruction some of us have used such films as *What is a Contract, What is a Corporation, Sharing Economic Risks,* all by Coronet. *Money at Work* by the Modern Talking Picture Service, Inc. describes the New York Stock Exchange and is a start for discussion of the investment side of our business.

To combat loose economic thinking and to defend our system of free enterprise, we use such films as *Productivity - Key to Plenty* by the Encyclopedia Brittanica and *Going Places,* one of the Harding College series. All too frequently we find our recent college graduate at least a delicate shade of pink. To work with us and succeed with us, his viewpoint must be changed, or at least broadened.

For specific training, not very many films are available except in the engineering and adjusting areas of our business. A possible exception is sales training, but here we are far outstripped by our Life Insurance brethren. Bill Moore of the General Adjustment Bureau has an exhaustive list of training films in his field. For underwriting, to my knowledge, there are none available. It is difficult to visualize how such films could be created and, if produced, how they could be kept current. However *there* is an area for someone to explore.

Lastly, on the subject of films in property and casualty insurance, I cannot resist mentioning their value for recruiting personnel for employment, especially from college campuses. The North America's film, *Your Tomorrow*, is known to most of you, who have found it useful for a general portrayal of our business and the opportunities and training available for those who seek a very worthwhile career. As you know, copies are available through any of our main service offices, both in the United States and Canada (plug!).

At this point someone is going to remind me of my statement earlier in this paper that I would touch only briefly on the subject of motion picture films. Actually, in the light of all that could be said, I have been brief, but proportionately, films are taking up more space in this paper than other types of aids. However, there is a reason for this. Motion picture films have a greater availability for you than have most of the types of aids to follow. From now on we shall be looking at audio-visual aids either from the standpoint of academic interest in their existance, or as examples of the type of aids you can construct for your own use.

Motion picture films as audio-visual aids to teaching have several serious drawbacks. Unless they are specifically tailored to your own needs, they frequently use up more time than the ideas they convey or clarify are worth. There can be much waste motion. If tailored to your particular need, their costs are frequently prohibitive. Moreover, they are highly inflexible and particularly vulnerable to obsolescence. Too frequently their presence in the curriculum is a forced one, and their prime value a stimulation of interest in the subject matter.

A little less costly than the motion picture film is the slide film, either with or without sound. Without sound, there is greater flexibility and more opportunity to combat obsolescence through the accompanying remarks of the instructor. Even in this instance, however, the experience of the Standard Accident Insurance Company is revealing. Several years ago the Jam Handy Organization made quite a sizeable assortment of slide films for that company, describing a variety of coverages. For example, let us look at one very hastily—the Residence, Burglary, Robbery, Theft and Larceny Policy. (Slide film — quickly run through with abbreviated, impromptu comments) (off). Immediately, those of us with quick eyes have discovered evidence of obsolescence. To make correction would be very expensive. To show the film and point out changes is to run the risk of fixing the

incorrect information in the mind of the student. As a result, since 1949 the Standard Accident has abandoned slide films in favor of flip charts. Duke Pierce assures me that the latter are equally effective, less trouble to handle (one operator and no need to darken the room) and far from unimportant, are infinitely cheaper!

The experience of the Standard Accident applies to the use of slide films for teaching coverage. It does not necessarily apply in other areas. For instance, some of the most, if not the most outstanding work in the area of safety education, has been done by the Zurich-American with the aid of sound slide-films, known as their "Safety Zone" series. Year after year these films have won national awards. I wish time permitted showing one of them to you. One, *The Shocking Truth*, impressed me very much when Jerry Holderman very kindly arranged a preview in his company's studio specially designed for such purpose. Jerry is in the audience today and I am sure will be pleased to discuss these films with you individually as time and opportunity permit.

Some of the companies in teaching fidelity insurance have attempted to use the National Cash Register's film, *Losses Are Like the Wind*. Unfortunately, however, only a small portion of the film deals directly with dishonesty losses. The film itself is well-done, and the National Cash Register Co. is very cooperative in making it available, but be sure you have time to spare in teaching fidelity before you use it. Incidentally the National Cash Register Co. uses very good taste in not attempting to sell you a machine by direct mention anywhere in the film.

Earlier I mentioned a slide-film of the Liberty Mutual Co. It is called *The Story of Our Company* and is excellently done. I can see its value for both internal and external public relations. It covers quickly and simply the operations and business philosophy of a large mutual company. Despite my predilection for the stock company type of operation I feel compelled to mention that this film has definite educational value and could be used to advantage in a college course.

In teaching economics both to basic and C.P.C.U. classes we have found very helpful the McGraw-Hill series of slide films which accompany the Samuelson text. Particularly good in defense of free enterprise is the film called *Land of the Free*.

Closely allied to slide-films are teaching slides. The more common dimensions for these are three by four inches and thirty-five millimeters. These are used with actual comment by the instructor instead of mechanical transcription.

In the library of the Insurance Society of New York is a very complete assortment of slides on such subjects as building construction, (slide shown) mechanism and operation of sprinklers and fog nozzles, also special hazards and processes.

For the Fire Chiefs' Convention the American District Telegraph (A.D.T.) prepared a set of 30 slides (35mm.) telling the A.D.T. story of prevention and protection. I understand these can be made available under certain circumstances.

Ed Blake of the Travelers has a set of slides called *The Bomb in the Basement.* He very kindly forwarded these slides with the accompanying script. Time will not permit running through the entire series, but let me show you a couple of samples.

(Blake Script)

> (Slide shown) — This is a drawing of a demolition bomb. It's a plain metal object — harmless enough unless it is detonated. And yet despite its appearance, you consider it menacing. You instinctively flinch a little when you see one because you know objects like this killed thousands of lives and destroyed millions of dollars worth of property during the last war, etc.
> (Slide shown) — And this is the aftermath of an explosion. This photograph was not taken in Munich or Berlin during World War II. It was taken, gentlemen, in Wisconsin in 1946 — The cause-not a demolition bomb, but a boiler!

Thus with the aid of slides Ed Blake dramatically teaches boiler and machinery insurance. Would that time permitted my reading his entire script and showing the more than twenty slides. One thing I am sure Ed's students will have little difficulty understanding or remembering what he has to say on the subject of boiler insurance.

John Breen of the Lumbermens has some 3 by 4 slides on the subject of the history of insurance. Here are two I am sure you can identify — (Slides shown) (1.) Yangtze River (2) Lloyd's Coffee Shop).

A recent departure and certainly novel method of teaching insurance with the aid of slides has been developed by the American Insurance Group of Newark. John Cosgrove, the originator of the unique technique, is here in the audience today. If time permitted John should explain in detail the theory behind this type of teaching. At first glance you will probably underestimate its value. There is more to the use of this technique than first meets the eye. John uses these cartoons as a stimulus to the students' imagination and thought processes. It is not so much what is actually shown that is important as the situations inferred and the remedies needed.

In getting across to the student the concept that insurance is a means of restoring asset values which have been impaired by different forms of loss, he uses a set of slides which we shall run through necessarily hastily. As rapidly as possible and of necessity sketchily I shall read his script:

> *Direct Damage* (Slide shown) Fire is, by all odds, the chief threat to homes and business enterprises, and illustrates direct damage.

Loss of Income (Slide shown) As a result of direct damage, a business may sustain loss of income while machinery stands idle.

Expenses arising from loss (Slide shown) When a man's home burns, he dreams of restoring it, but meanwhile he must live elsewhere. (Slide shown) Subsequently, he may go to an apartment hotel and learn that rent there is expensive. (Slid shown) Meanwhile, time goes by while his own premises are being restored, and he incurs many unexpected additional living expenses. (Slide shown). He remonstrates with the contractor, but to no avail in these callous days. (Slide shown). When he finally gets back to his easy chair in his own home, he is plagued by debts, unless he has had additional living expense insurance.

Drain on Assets (Commercial) (Slide shown). Persons may be injured or killed in elevators, and the resulting claims on the business may be a severe drain on its resources. (Slide shown). Similarly, minor accidents to individuals may also result in litigation and heavy judgements.

Drain on Assets (Personal) (Slide shown). Your children may involve you in litigation and law suits which will drain your personal resources. (Slide shown). The careless leaf raker, who sets fire to his neighbor's house, may have all his possessions attached. (Slide shown). Likewise, the sportsman may involuntarily hook his best friend. (Slide shown). Or bring grief to a golfing companion with resulting litigation and possible heavy judgment.

Another form of visual aid, and one which with modern refinements is becoming increasingly popular, is the opaque projector. As youngsters, many of us were proud possessors of what were called magic lanterns. This machine could project on a screen the images of picture postcards and magazine illustrations. The Balopticon or Delineascope was a natural refinement of this device. The picture on the screen (Hartford Classroom Photograph) is projected by the Delineascope used by the Lumbermens Mutual. Incidentally, the picture shows how the Hartford Fire and the Hartford A. & I. successfully use flip charts in conjunction with the blackboard. With the exception of burglary insurance, every subject at the Hartford has prepared for it a complete set of flip charts. They serve to keep the instructor on the track of subject matter to be covered, and serve as an outline to help the student marshal his facts in orderly arrangement.

The Balopticon can project the image of a larger sheet of paper and can be helpful in getting before the class the excellent visual aid materials assembled by the Rough Notes Publishing Company in their *Insurance Pictorial Visual Selling Service*. These materials, in addition to being very fine aids to insurance salesmen, can liven insurance instruction as well. After all, whether he knows it or not, the successful agent is an insurance teacher, just as the successful teacher must

use many of the techniqes of a good salesman. Contrary to popular belief, the dynamic teacher is, or can become a successful salesman.

The latest refinement in opaque projectors is the Vu-Graph or Visual Cast (two trade names for the same type of instrument).

At the Lumbermens Mutual, these Vu-Graphs have proved so successful in training that John Breen, and his associates, use them to the complete exclusion of the blackboard and several other more commonly used visual aids. John has kindly consented to give us a brief demonstration of how his company uses the Vu-Graph. He will not only use some materials of his own, but also has some slides furnished by the Standard Accident and the Aetna Casualty — John Breen.

(At this point a five-minute demonstration of the Vu-Graph was given by John Breen, 3rd Vice President, Lumbermens Mutual Casualty Co. Mr. Breen demonstrated:

1. Lumbermens' use of comprehensive liability contracts
2. Aetna Casualty's use of retrospective rating slides)

At some time in our teaching, I am sure that all of us have used charts. Here on the platform are some charts loaned for the occasion by John Breen. Notice particularly this chart with masks used as an aid in teaching coinsurance and blanket reporting form complexities. Another form of chart is the enlarged photograph. This aerial photograph of Middletown is used to get the students thinking about the various insurance risks (prospects) in a typical town.

Here are some 35mm. slides picturing some charts used by a certain insurance company in Philadelphia. The first one (Slide shown) is a good example of the mistaken use of visual aids. It clarifies little and is actually an insult to the intelligence of the student. It was our first attempt so perhaps we can be forgiven. We keep it as a reminder of how visual aids can be abused.

At the North America we have found charts to be of great assistance in getting across some of the more difficult and usually troublesome concepts. Our old friend, coinsurance, still baffles the beginner. we have found this chart helpful (slide shown). Oh, oh, look down at the bottom — that nasty word "penalty" again!

"Proximate Cause" is always confusing to students, and to make confusion worse confounded we developed this multiple-phase chart (slide shown). It seems a clever idea at the time, but for one reason or another instructors seem to shy away from its use, probably some indication of its worth. In this second picture of the chart we begin the unmasking. (slide shown). Under the pictures of the sequence of the Texas City disaster are written explanations of the significance of each link in the chain of events. Charts 3, 4, and 5 complete the chain of uninterrupted events which followed the primary cause.

Other headaches to beginners are pro-rata distribution (slide shown) and reporting forms: this one (slide shown) shows the advantages and this one (slide shown) shows the effect of a reporting cover to handle

fluctuations in values while the specific insurance underlying is written economically under the term rule.

Salvage under Business Interruption insurance can confuse the brightest of students (slide shown). Actually, the most satisfactory visual aid for this particular purpose would be a board covered with electric light bulbs which would furnish the flexibility needed to show the different areas of salvage under conditions of different coinsurance percentages. Some day we may build such an aid, but if we do, it will take a skilled electrician to master the complex electrical wiring diagrams.

Speaking of Use and Occupancy insurance, here is a multiple purpose chart. In this slide (slide shown) you see the chart set up for explanation of the components of the Gross Earning Form in a Mercantile Risk. By changing the masks (slide shown) we can show the changes which take place in the Two Item Form for a manufacturing risk with ordinary payroll, Item II not covered. This particular chart has seen much use in explaining the four customary Business Interruption Forms. It has proved highly satisfactory.

In the area of casualty insurance, here is an example of a flexible chart used in setting up problem situations for O.L.T. insurance (slide shown). Notice the occupancy in this slide and then contrast it with the occupancy in this next one (slide).

To round out our discussion of charts, here is a good one used by Frank Eubank of the Royal Insurance Company (slide shown). As you can see, it deals with our old friend *The Problem of Risk*. Frank assures me that it has proved to be a very satisfactory aid.

Time is running short so I must skip lightly over the remaining types of visual aids. Maps, for instance, need little discussion but I would mention in passing that companies, from time, have Sanborn Maps in surplus. Instead of destroying them, they would prefer to pass them on to you for such use as you care to make of them. We have such surplus at the North America right now.

In our opening scene of a classroom at the Standard Accident Insurance Company, we saw a large graph in use (slide shown). All of us, I am sure, use graphs quite frequently. There has been much comment lately about a series of graphs developed by the Hartford Accident Insurance Company which point out the areas of insurance which need aggressive sales activity. They are extremely well done. The National Underwriter in its November 30, 1950 issue tells their story and furnishes interesting illustrations.

Ray Ringer of the Aetna Fire has some very fine graphic pamphlets on Business Interruption Insurance, both for manufacturers and merchants. Within reason, he will satisfy requests for them. My suggestion is that you get them while they last!

Another group of visual aids can be loosely lumped together as "objects, specimens and models". Our pamphlet gives you a rather imposing list of these. Here for instance is a picture of a plate glass dis-

play at the Standard Accident (slide shown). Either Libby-Owens or the Pittsburgh Plate Glass will respond quickly and enthusiastically to requests for similar displays.

To satisfy the visual and irritate the audio, here is a model truck put out by Babaco. It is used to demonstrate a most effective loss prevention device in the field of motor truck cargo. (Model and sound effect) Woke you up, did it not? We get the same effect in our classes.

Speaking of the audio-visual senses, here is a display which also uses the olfactory and tactile senses (slide shown). I assure you the goat skins in the foreground stimulate the olfactory senses. The sample commodities in the bottles can be placed in the hands to stimulate tactile senses and I suppose, if we opened the cocoanut, we could even stimulate the gustatory nerves!

An example of an actual model used in teaching is this picture of a scale model of a house used by the General Adjustment Bureau (slide shown). Bill Moore tells me this model has been very helpful in teaching adjusting.

The use of models, however, can be quite impractical from the cost standpoint. I recommend instead, slides of actual construction such as those used by the Insurance Society of New York. Here, for instance, is a model of the North America Furniture Factory (slide shown). It is probably one of the best of its kind in existence. I assure you it is more than ornamental (it resides in our Agents' School Lounge). However, its initial cost was somewhere around $7,500; it has tied up expensive floor for five years with the result that with original cost, maintenance and floor space rental, it probably represents today an investment well in excess of $10,000! Just think of the other more practical and less cumbersome visual aids we could have purchased for such an amount of money. I must admit, however, we have become quite attached to it, as indeed we have to the fire engines and ship models which grace other parts of our home office building. Atmosphere, you know! (slide off)

In our pamphlet you will find a suggested list of field trips. These trips are indeed audio-visual aids to instruction. Obviously, they are valuable, but at the same time, they can be very expensive and they certainly are time-consuming. As mentioned before, sometimes a motion picture can be profitably substituted.

Strictly audio aids are recording playback devices. Amos Redding of the Aetna Casualty uses them successfully in teaching sales presentations to agents. George Tisdale of the Commercial Union uses them in public speaking courses so that students may listen to and appraise their own speaking deficiencies. If time permitted, we could play for you one of these recordings which George Tisdale kindly forwarded to us. Suffice it to say, it has been proved a valuable instructional tool. At the North America we use a similar technique to teach ediphone dictation.

Before bringing this paper to a close, I would like to show you one more slide (slide shown). This looks terrifyingly complex, does

it not? Students react to it in the same way. To offset this, we have used the strip-tease technique. The whole chart is covered with strips of blank paper attached to the board by scotch tape. As the daily moves on its course, the strips are torn off revealing piece meal the route to be followed. This helped to remove the initial impression of complexity and with the aid of curiosity assisted concentration. However, a better tool for this type of instruction has recently been developed. I refer to the flannel board which you see here before you. Instead of unveiling the finished chart, it constructs it before your eyes.

In our estimation, the flannel board is one of the most practical improvements in visual-aid techniques developed in a long time. Therefore, I shall wind up this presentation by asking Frank Beardsley, of our department, to give a very rapid demonstration of its use in teaching how reserves eat up surpluses. To do this, we have borrowed directly and with permission from the Review of Cravens, Dargan & Co. Mr. Beardsley:

(Here a five-minute demonstration of flannel boards was given by Frank H. Beardsley, Supervisor of College Relations, Education Dept., North America Companies. Mr. Beardsley demonstrated "reserves eat up surpluses," adapted from "Review," a publication of Cravens, Dargan & Co.)

Some one at this point may insist that I have omitted some of the most valuable aids in insurance instruction namely, manuals and specimen policies. Quite right, they are extremely valuable. Therefore, I would on behalf of all of us thank the Association of Casualty and Surety Companies, the Western Underwriters Association and the Eastern Underwriters Association for creating and furnishing the student kits of specimen policies with which no doubt the majority of you are familiar. All of us have had requests from time to time for sample policy sets. The collation problem in a busy office can become very time consuming. To have these student kits made available by these organizations is a splendid contribution for which I am sure we are all grateful.

Time does not permit my summarizing the contents of this paper. Suffice it to say, it has been a pleasure to bring this hodge-podge of audio-visual aid information to you. I earnestly hope that its very inadequacy and confusion may stimulate more scholarly minds to carry out a thorough and genuine research of this interesting area of insurance education. I understand the A.A.U.T.I. has a committee on audio-visual aids. I hope this paper can be the platform from which that committee will spring into action, and, if it does, that its members will feel free to call upon our departments for whatever assistance we can furnish. Thank you.

Discussion

by

Dan McGill, University of North Carolina

I have heard it suggested facetiously that more could be accomplished in meetings of this sort if all papers were read by title only! I am sure that all members of this group would agree that we are fortunate that such a rule was not enforced this morning. Mr. Kelsey has given us an excellent description of the types of audio-visual materials which are available today and a very interesting demonstration of some of the devices. The demonstration of the Filmstrip was particularly interesting and enlightening to me. We are indebted to the speaker for his unusually fine treatment of his topic.

I gained the definite impression from this morning's paper that most of the current visual aids have been prepared for use in secondary schools and other groups at that level and, consequently, are not appropriate for our purposes. Yet the demonstrated value of visual training aids would indicate that the quality of university instruction could unquestionably be improved by a broader use of visual training devices. It would seem that we have a responsibility to develop the types of visual training materials that are now lacking.

The problem is not one of developing new media for transmitting information visually. Mr. Kelsey's paper and demonstrations furnish proof that the media have been developed to a high state of efficiency. Neither is it a problem of physically procuring the materials. As Mr. Kelsey pointed out, some of the most useful materials can be prepared by the art or visual aids department of the university involved. The basic problem is one of "ideas," of devising charts, graphs, and diagrams that will make abstruse theories and concepts more intelligible to the student. These ideas must come from the teaching profession. No other group is in a position to create the materials we need. It is with that thought in mind that I am devoting the remainder of my remarks to outlining the specific areas of life insurance in which I believe visual aids could be most effective. These remarks are suggestive only, and are intended only to stimulate your thinking to the end that many worthwhile ideas will be contributed by this group. Most of my comments will be concerned with the use of charts, graphs, and diagrams, partly because of my greater familiarity with that type of visual aid and partly because I am convinced that such materials have the broadest applicability to life insurance teaching. I do not have in mind charts and graphs that merely present numerical data in graphic form; rather, I am thinking of ingenious, well-designed charts and diagrams that will enable the student to grasp concepts which are difficult to understand from a mere verbal description.

The first concept that can be graphically presented is the level premium method of operation. This concept is basic to legal reserve life insurance, and it is essential that the student have a thorough comprehension of this principle. In general, students find it easy to understand how a redundant or excessive premium in the early years of a contract offsets an inadequate premium in the later years. They are thoroughly confused, however, when told that the excessive premiums, invested at compound interest, will not only offset the deficiency in the later years but will, in addition, accumulate a fund equal to the face of the policy by the end of the mortality table or the endowment period, as the case may be. Present charts and diagrams inadequately portray this latter phenomenon, and the instructor must use at least two diagrams to explain the process. Even then, the explanation may not be satisfactory since the charts can not be coordinated sufficiently.

A second concept that I find difficult to get across to a group of students is the conversion of the net single premium into the net level premium. The particular thing that causes trouble is the function of the life annuity due. I am sure that you have all received the answer many, many times that the net level premium for a ten-payment life policy is obtained by dividing the net single premium by ten. If the students could be made to visualize the implications of the life annuity due and to realize that the conversion process is nothing more than an application of the arithmetic rule of ratio and proportion, the task of the teacher would be greatly simplified. I know that many of my students, while able to calculate level premiums unerringly, never really understand what they are doing.

A third principle that can be graphically portrayed is the process by which legal reserves are accumulated. At least two types of charts can be used in this connection. One type, with which you are all undoubtedly familiar, shows the ascending curves of reserves for different types of contracts issued at the same age, or the same type of contract issued at different ages. Another type of chart which can be used very effectively portrays on one curve the present value of future benefits or the net single premium at each possible age of issue, and on the other curve, the present value of future premiums. The latter is obtained, of course, by multiplying the net level premium by the present value of a life annuity due of $1 at the attained age. The two curves begin at the same point but gradually diverge until the divergence equals the face of the policy. At any particular age the spread between the two curves represents the reserve.

A fourth phase of life insurance that must be visually presented, if presented at all, is that of modified reserves. I realize that some teachers make no attempt to discuss this subject, but it seems to me that the close relationship between modified reserves and nonforfeiture values makes it highly desirable that the student have at least an elementary acquaintance with the problems faced by insurance companies in this area. The type of diagram used in Riegel and Miller's text is rather effective, but it usually terrifies the students when they are first confronted by it. It would be helpful if some simpler chart could be devised.

Related to reserves and modified reserves is the concept of nonforfeiture values. If the formula for calculating prospective reserves is mastered, and the factors that make it necessary to modify those reserves are borne in mind, the calculation of standard nonforfeiture values is relatively simple. Learning the formula does not insure comprehension of the underlying theory and that obviously is the most important consideration. The diagrams developed by Mr. Chapman in the American College brochure on nonforfeiture values are excellent, and if made available to college teachers, would facilitate discussion of this subject.

A sixth subject that could benefit from visual aids is that of dividends. Students seem to grasp the general principles underlying dividends, but teachers would find it advantageous to have diagrams that would depict clearly the source of dividends. The diagram or diagrams should not be general in nature but should show precisely how deviations of actual experiences from projected experiences creates a surplus from which dividends can be paid.

The foregoing six concepts are concerned directly or indirectly with the actuarial aspects of life insurance. It is in this area that students have the most difficulty. There are other areas of the subject, however, that lend themselves to pictorial treatment. One broad area involves an analysis of contracts with emphasis on the relative protection and investment elements ofthe contracts. Term, whole life, and endowment insurance contracts should be set forth as the three basic types of life insurance contracts. If the student masters these three types of contracts, plus the annuity principle, he should be able to analyze a contract offering any possible combination of benefits. In addition to the three basic types of contracts, charts should be prepared for family income, family maintenance, and retirement endowment contracts. It is virtually impossible to explain these very popular contracts without a diagram of some sort. Charts are likewise helpful in explaining certain phases of group life insurance.

Other areas in which diagrams and charts could be used are programming, investment, and selection. Programming implies an income distribution of insurance proceeds and such income distribution must necessarily be presented visually. Previously prepared charts would be great time-savers.

There are charts of endless variety which show how life insurance companies invest their money, but few attempt to picture the major problem of the companies: how to invest a constantly increasing flow of new funds in a money market of decreasing investment outlets and declining interest rates at a yield equal to the interest rate guaranteed to the policyholder. The squeeze caused by declining interest rates could easily be demonstrated by a simple chart showing a comparison, over a period of perhaps twenty years, of the composite rate of interest required to be earned by insurance companies with the rate actually earned. Some fine charts on this general topic were presented before the Insurance Seminar held at Harvard University earlier this year.

In the area of selection, the numerical rating system could be portrayed on a scale graduated as to superstandard, standard, and substandard risks. A chart of this type would show a class why a life insurance company must guard against a concentration, within a particular risk category, of risks subject to a higher rate of mortality than the average for the category.

Another type of visual aid discussed by Mr. Kelsey is films and filmstrips. I feel, however, that the usefulness of this medium is rather limited. There are few areas in which sound films could be used to advantage in college teaching. Upon reflection, I can visualize three areas where they might have value. One area encompasses the selling process. Some of the larger companies have developed excellent films of this nature and have made the films available to educational institutions. There are inherent disadvantages in using company films, however, and I think a few institutional films on the selling process should be developed. The students would be given a "feel" of the business that they could obtain otherwise only by actual experience.

Another use for sound films would be the home office operations of a life insurance company. The film should show the entire insurance process starting with the organization of the company and the taking of the application to the payment of the death claim. All the important staff functions should be shown. Some insurance classes can visit home offices to observe actual operations, but most schools are too far removed from a large insurance company to engage in that practice. Besides, I believe that in most respects a student would get more from the motion picture than from the field trip. Students are not always able to hear what the guide is saying, and it is physically impossible to see all home office operations in one trip.

A third type of sound film which would be interesting and educational would be one showing the investment activities of the insurance companies. The student could not fail to grasp the vital role being played by the insurance companies in accumulating the savings of people and putting them into capital goods and other useful purposes if he saw actual projects which were completed with insurance company funds.

Other types of visual aids discussed by Mr. Kelsey could be used on a limited scale, but I do not believe that they are of major importance to college teachers of insurance.

Discussion

by

Richard deR. Kip, University of Pennsylvania

We are indebted to Mr. Abbott, and through him to the other members of his staff and to many other people beyond his company whose cooperation was needed, for the interesting and instructive talk we have just heard — and I suppose I should also say "seen." We should appreciate the amount of time and effort which has been expended on our behalf. The planning phases took a considerable period of time. Questionnaires and letters revealed companies, concerns and associations active in the area of visual aids. Mr. Abbott made an extensive trip visiting over three dozen of these organizations. An inventory of the visual aids in actual use today was prepared and printed. In brief, we can see, with but little reflection, that Mr. Abbott has really gone "all out" for us. He has done an excellent job!

A considerable portion of the paper has been devoted to films, film strips, and slides. This concentration I have found helpful for it is that part of the visual aid area in which I feel that I know the least. I imagine that that is the case with almost all present.

Mr. Abbott stated that films are being used for eight different purposes: public relations, employee relations, sales training, insurance education, economic education, technical training, loss prevention, and personnel recruiting. These fields are more important to the company trainer than to the college educator; they are for the most part areas of little importance to those responsible for collegiate courses in insurance.

Mr. Abbott refers, by title, to several films. I have seen at least four of them. Though I appreciated what they attempted to do, I felt that their usefulness in college courses was very restricted. They were either very general or very technical. If the former, they were so general that one would only want to use them in the introductory lectures of a general insurance course. If technical in nature, they were concerned with sales techniques, loss prevention activities, or salvage operations. Knowledge of these subjects is needed by those in the insurance business, but these subjects are questionable inclusions in a collegiate course in fire and casualty insurance. The sales aspects belong in the marketing courses; the loss prevention and salvage phases may best be gathered together in a separate course. The company trainer may well feel that he can, nay should, include these subjects in his course — remember that the goal of the company course is a different one from that of the collegiate course, and very rightfully so.

We have been shown two slides from a series on power plant insurance. Mr. Abbott is certain, he says, that the students "will have

little difficulty understanding or remembering what he has to say on the subject of boiler insurance." I will not question his statement that the students will remember what was said about boiler insurance. They will see the need for such protection. If he meant to imply that the students will acquire an *understanding* of boiler insurance, I am forced to withhold my decision. I found in my notes this query: "Does he teach boiler insurance, or does he motivate them to sell it?" The difference is vital to those in the education and training field.

In general, films create some problems. The use of films made for other purposes than one's own is at best a questionable practice. This was first driven home to me in service. I received an assignment to see if there were any films available which we could use in the training of job analysts. I saw many films. Most were excellent — for the purposes for which they were filmed. But not one was really capable of being adapted for our purposes. We discussed having one made, but the cost would run into the thousands. It was "no-go" for us, and I think that it is the same answer for the colleges. Mr. Abbott says himself that he finds it difficult to visualize the creation of a film in the area of underwriting, an area where the mental processes play the all-important part and an area of considerable interest and import to those teaching non-sales courses. Here is a segment of the insurance field in which we are most interested and what do we draw? A blank. But really, that shouldn't surprise us one bit; we should know better than to expect that a person can be taught to think by resting comfortably in a darkened room and looking at a movie — the expected outcome of such anendeavor is very apt to be slumber.

The vu-graph and the flannel board are two devices which were new to me. The former can be useful in the classroom without being complicated to operate or needing special materials. The latter, the flannel board, has appealed to me; perhaps, because it is so similar to an old friend, the blackboard. We have seen two flannel board demonstrations. The first was intended to show what should not be done with visual aids in general and with the flannel board in particular. It succeeded admirably. The board actually was a distraction, even going so far, perhaps, to be a repellant. My, how green was the corn! One can see no gain and much loss by a visual aid so used. The second demonstration, though hurried because of the press of our time, brought out the best features of this type of visual aid. But don't overlook a few aspects: Mr. Beardsley spent a great deal of time planning the layouts and making the board really work. I saw several changes since the "dry-run" in Philadelphia a week ago, so I know that a lot of time was involved. Thus, to use the flannel board the classroom teacher will need considerable time to plan the layouts. He will need artistic ability and more time to make the "props" — or, he will have to be backed by a budget allowing him to buy either or both. The flannel board is quicker than the blackboard but does not have its flexibility in use. The vu-graph, on the other hand, appears to be very flexible.

Mr. Abbott's inventory of visual aids will be valuable to us. Its compiler states, though, that it tries to tell us about the availability of the

various aids. It does tell us who is using what. But it does not tell the conditions on which copies of the various aids are available. Nevertheless many teachers will find this printed list invaluable in guiding them to some "tried" visual aids.

In conclusion, I was glad to see the subject of visual aids appear on our program. Our task as teachers is to lead the students into and help them through the labyrinth we know as insurance. We have our voices and our limbs, our blackboards and our texts to help us make sensory impressions, but we know well that more is needed to do the job we would really like to do. I have a recollection that eight or ten years ago, A.A.U.T.I. members were sent a questionnaire pertaining to their desires and needs in this area of visual aids. I thought it a good start, but I never heard any more about the matter — I suppose the undertaking was a war casualty (perhaps, a war baby which aborted). Now the A.A.U.T.I. has made its own start in the nature of an inventory of what can and is being done today. Mr. Abbott has given us a detailed inventory of the visual aid situation in the property and casualty fields. In the years to come the A.A.U.T.I. can, by the use of other approaches, complete its own study of this area.

The Half-Century in Personal Insurance

by

Henry H. Jackson, Vice-President
National Life Insurance Company

The year 1950 has been as full of anniversaries as an egg is of meat. Sesquicentennials, centenaries, semicentennials (not to mention semisesquis, semisemis and lesser fry) of states and universities, of great cities, including our national capital, of the most varied examples of private enterprise imaginable from steel corporations to newspapers, from insurance companies and magazines to the publication date of a masterpiece have been duly celebrated—frequently by memorial issues of United States stamps, as every wise philatelist's son doth know. Indeed, some insanely ingenious journalist pointed out that fourscore and seven years ago Lincoln began an immortal address with the words, "Fourscore and seven years ago."

Of the making of many speeches, pamphlets and books about such events, and particularly about the half-century just closing, there is no end. We have been assured that those of us born in the nineteenth century have lived through the unfolding of an "Incredible Tale." We have been reminded that this half-century is "The Age of Science," and that we are aboard the "20th Century Unlimited." It is rather amusing to reflect that in all such books life insurance and actuarial science go unsung. I like to think that the reason for such silence may be the simple fact that life insurance is as wholesome and almost as indispensable in our democratic economy as good bread, and nobody expects the chroniclers of the age to devote many chapters to the qualities of nourishing loaves. On that score, then, it may be proper that you devote forty minutes of your very full program to "The Half-Century in Personal Insurance."

But on another count my presence here has been rendered superfluous. There is just off the press under the S. S. Huebner Foundation imprint a volume, "Life Insurance Trends at the Turn of the Half-Century," prepared expressly for you, the university teachers of insurance, and for your successors in that worthy vocation. If, then, my remarks are not to be merely reminiscent of that sturdy volume, I must make my review of the period highly personal. I should be unfair to you and recreant to my profession if I failed to explain promptly that my point of view may at times seem to you unduly actuarial, and that my reference to developments will deal primarily with what is familiarly termed the ordinary branch of the business, though I trust no inferences of mine will be unfair to the great industrial branch or to this century's child, group insurance. In short, I come before you (as one historian maliciously remarked of another) without fear and without research.

I deem it particularly auspicious that our meeting today marks the birthday of one of the rare great men of our times, Woodrow Wilson. At the close of the nineteenth century he was a brilliant scholar and distinguished educator without a thought, I suppose, of being remembered as a statesman. This very fact makes all the more remarkable the sentence I am about to quote. His "A History of the American People," in five volumes, published in 1901-2, concludes with the year 1900, and ends in this remarkably significant prophecy for the twentieth century:

> Statesmen knew that it was to be their task to release the energies of the country for the great day of trade and of manufacture which was to change the face of the world: to ease the processes of labor, govern capital in the interest of those who were its indispensible servants in pushing the great industries of the country to their final value and perfection, and make law the instrument, not of justice merely, but also of social progress.

It is only if and because life insurance has made a worthy contribution to such social progress over the last five decades that an outline of its history for that period can merit your consideration this afternoon. But in presenting such a summary, I wish to quote as a sort of text for my homily a single paragraph from one of Wilson's admirable essays published before his history was undertaken:

> The history of the United States is very far from being a history of origins. It is just the opposite: it is a history of developments. You have not described the manufacture of steel when you have discussed the qualities of pig iron. This great continet, then wild and silent, received European populations, European manners and faiths, European purposes, into its forests, and, finding they meant to stay, proceeded to work its will upon them. They took on a new character, and submitted to a new process of growth. Our continental life is a radically different thing from our life in the old settlements. Every element of the old life that penetrated the continent at all has been digested and has become an element of new lif. It is this transformation that constitutes our history.

Let us endeavor, then, to see whether in a space of years so insignificant in geologic time, but so supremely important in your lifespan and mine, insurance has revealed a series of transformations natural to its new environment and properly ministering to American social progress. For we must at the outset remind ourselves that life insurance, like so many of the things we hold dearest today — like orderly legislative procedure, like the noble language we speak — is not a Yankee invention. Indeed, it was not imported to this continent in any proper commercial sense until barely more than a hundred years ago. But in Great Britain, long before that, earnest, honest, and brilliant actuaries had laboriously established all the basic principles which make insurance genuinely a science of protection.

However, even in its first fifty years on this continent, life insurance had manifested several developments and transformations, one of which must be emphasized at the outset. The very first paragraph of one of George Gissing's forgotten novels runs:

> So to-morrow, Alice," said Dr. Madden, as he walked with his eldest daughter on the coast-downs by Clevedon, "I shall take steps for insuring my life for a thousand pounds.

If we found a remotely similar sentence in an American book today we would know the tale was to be a detective story involving murder and very likely double indemnity as well as life insurance. Gissing is a grimly realistic English novelist with nothing of the sort in mind. But his sentence does betray a transformation: the good doctor plans to take steps. Even in 1893, when "The Odd Women" first appeared, it would have been, in this country, the insurance agent who took them. This transformation through the organization of vigorous sales forces for placing life insurance just as extensively as possible was already thoroughly established on this side of the Atlantic before the time set for my half-century outline. This substitution of selling for buying, of aggressive competition as against solicitous service, is responsible for the vast, even explosive, expansion in the volume of insurance sold and in force. Indeed, without something akin to missionery zeal in its promotion, such widespread acceptance could never have been achieved.

If growth by itself constituted sufficient evidence of genuine progress, a single paragraph would suffice for my entire paper. At the beginning of 1901 all the ordinary and industrial companies combined had total insurance in force in the United States of rather more than $8,000,000,000. Today the corresponding figure is quoted at $228,000,000,000 with nearly $30,000,000,000 written this year alone. Thus 83,000,000 of our citizens enjoy insurance protection guaranteed by some $64,000,000,000 of insurance funds established as reserves and general surplus by our American companies. All this is without reference to the additional billions upon billions of coverage directly or indirectly provided by the federal government. I am lumping together this formidable array of figures because I do not intend to bombard you with any more at all. And I am using even these without attempting minute accuracy because back in high school days I learned from Edmund Burke when he was discussing the probable population of the American colonies in 1775 that accurate figures are of no importance when dealing with a violently expanding population. An exaggeration of today will doubtless be a puny understatement year after next.

The barest reference then to insurance figures of 1900 and of 1950 demonstrates incredible growth. Perhaps, however, we moderns are too prone to assume that greater size means enhanced value, that increased power means genuine progress. One of our genial philosophers has suggested that mankind's abundant power merely means that could he catch a choice specimen of *Pithecantropus erectus*, he would promptly put him in a cage at the zoo. At the very least, however, this well-nigh miraculous growth in size does illustrate a transformation that constitutes part of our history. It does demonstrate, does it not

that we, the American people, are convinced that life insurance happily meets one of our essential needs, that it does actually tend to promote that social progress of which Wilson prophesied? Possibly from a cursory review of a few exemplary episodes in that history we may feel safer in our attempt to estimate whether, in still other respects, progress and power have advanced together.

This review I wish to present decade by decade, without so much attention to origins as to popular acceptance and, of course, without attempting to crowd many events into any one decade — rather to single out here and there an example that I deem of spcial significance.

But that my discussion may be both informal and personal, I may as well admit at the start that I qualify under your announced program of this forenoon: I am one of those "Visual Aids in Insurance Teaching." I am Exhibit A in "A Half-Century of Personal Insurance." For when I was slim and seventeen (which obviously was so close to the beginning of the century that nobody need quibble over fractions), I applied for two small policies of life insurance. This I did at the behest of my father, who was, our corner of Vermont. a widely-known medical examiner for both the companies thus favored. In those days an insurance agent, who had never even dreamed of having the term underwriter applied to him, was glad to pick up even a $1,000 policy. Both these policies are in force today. Neither has ever been subjected to the indignity of lapse and restoration, or indeed has ever been the convenient source of a policy loan. Each has supplied me more than once the very special comfort that it is the peculiar property of a policy to afford a desperately sick man with dear dependents. These facts may help to explain my personal aversion to those unscrupulous persons—call them twisters, tipsters, or what you will—who seek to unsettle the confidence of old policyholders in their contracts and plan thereby to gain for themselves maybe thirty pieces of silver.

When my first policies were taken out it really didn't matter whether I was 17 last birthday, or 17 next birthday, or 17 nearest birthway, for in most companies in those days few applicants were accepted under age 20 and fewer still were rated under that age. This suggests another complete reversal of form in our insurance world during the half-century. Probably no one disliked more than I did the spirit in which the TNEC investigation of life insurance was conducted in the 30's, but certainly the published findings were on the whole highly reassuring to policyholders in all good companies. About the only drastic criticism I can remember was addressed to industrial companies for too frequently insuring the wrong persons—the children instead of the breadwinners. In a magnificent burst of generosity ordinary insurers, since that criticism was leveled, have taken the odium off industrial companies by going all out themselves for insuring not merely the youth of the land, but even babes in arms. Wherever this is done properly as an illustration of luxury insurance to start the young on the way they should go, wherever, that is, the breadwinner is in the truest sense adequately protected by insurance and has plenty of money

to spare on extras, insurance even on a babe at birth may be innocuous. Otherwise, in the view of one who didn't begin his insurance coverage till 17, it may be pernicious.

After exploring a bit further contrasts between my oldest and any modern contracts, I will pursue the course of the decades. There is first the manifest contrast in form. Both my old policies are so big when you unfold them and unfold them and unfold them again that while they probably do not actually cover acres and acres, they are at the very least enormous as well as being highly embellished. Your modern policies are neatly printed on legal-size sheets and handily stapled. Yet they are a great deal longer and far more liberal in special privileges, particularly to the beneficiary. I am not certain that in general they are much easier for the laymen to understand, though for a whole generation a lot of us have been trying to make them so. Probably now, as fifty years ago, the owner takes them very largely on trust and thinks he has no time to read them through, much less to study them.

Both my policies were issued on the American Experience 3% basis. You may remember that the 3% interest assumption was rather generally adopted by participating companies as of just about January 1, 1901, prior issues having been brought fairly uniformly to the Combined Experience 4% basis. The shift in mortality assumption was really unimportant. Either the Combined or American Experience would have served as an adequate basis for reserves throughout the half-century. Either of them would have been rendered obsolete as true indicators of likely mortality experience at the various ages by the amazing improvement in longevity of our entire population during that period. The shift from 4% to 3% was the result of some very gloomy financial forebodings promulgated in the 1890's as to the probable trend of interest rates. The forebodings were pretty thoroughly discredited during the first three decades of the century, though since then they have been more than adequately fulfilled, but for reasons quite different from those which the prophets of evil originally propounded. As a rsult, policies today corresponding to my two contracts are being issued on a CSO 2½% basis.

Both my old policies, like all the others issued at the beginning of the century, frankly recognize the year as the unit of time involvved in life insurance contracts. That is, premiums and reserves alike were constructed on the convenient theory that death claims should be payable at the end of the policy year of death and that annual premiums, if paid on an installment basis, should be collectible under the same terms. This was a sound old British practice and, indeed, was reasonably consistent with the actual performances of insurers in the early days of life coverage. I am glad to record that the contracts issued today by the two companies I have been talking about have shifted their theory, that is, their premiums and reserves, to fit modern practice. Their new policies recognize frankly prompt payment of claims at death, with discontinuance of premium obligations at the end of some brief convenient interval following the date of death and conse-

quently with the refund of any premiums paid beyond that termination date. This substitution of infinitesimal calcus for algebra through the use of "continuous" functions seems to me both convenient and sensible. Indeed, it seems to me inevitable in a nation that long ago abandoned the sound old British practice of pounds, shillings, and pence because it thought a decimal coinage so much more satisfactory.

And now for "Through five decades with life insurance." Unfortunately this cannot be so hilarious a journey as "Through History with J. Wesley Smith," though I might suggest that, so far as I recall, Wesley takes not one peep at life insurance. However, he does get close to the subject when one bored Roman reclining outside the Colosseum remarks petulantly to his crony, "Bread and circuses, bread and circuses! I'd rather have Social Security." Certainly the very first year of my first decade opened auspiciously. In the summer of 1901 work commenced on assembling and publishing the combined experience of 34 companies in the United States and Canada relating to 98 distinct classes of risks. This was the first of a great many invaluable studies undertaken by recognized bodies of American actuaries to make more truly scientific the scientific appraisal of insurance risks. An eminent British actuary as early as 1820 had made an eloquent plea for just such co-operative effort, and much had been done in Great Britain in the 80 intervening years, but this Specialized Mortality Investigation was a notable step toward greater knowledge and increased fairness in dealing with all applicants. It has been followed by almost innumerable later studies, joint and individual, which cannot be enumerated here. It is a happy chance that this important co-operative effort set the pace at the beginning of the century. And the moral of that is, if this historian must supply a moral: Put your experience into a pool, and skillful divers may bring up pearls of great price.

One other outstanding investigation in this first decade — indeed, for the public, *the* outstanding one — is a horse of a very different color, popularly known as the Armstrong Investigation in New York State. The aggressive competition already mentioned, admirable in many ways and fundamental in the expansion of the last fifty years, was already revealing some of the defects of its qualities. In a few instances little groups of willful men, to stimulate mere hugeness of their companies, ruthlessly employed indefensible methods and excessive agency rewards. These practices were linked with illustrations of incredible deferred future dividends and too often with callous disregard of the proper equities of old policyholders. Legislation resulting from the reports (now entomed in seven fat volumes of which I must be one of the few surviving readers) curbed the excesses, forbade several objectionable or dubious practices, and on the whole made for greater uniformity in contractual rights and in improved state supervision. But the immediate effect was to shake public confidence and thus restrict new issues and actually, for a brief period, to reduce the total insurance in force.

Here it is convenient to glance ahead at two other insurance investigations, TNEC and Guertin. The former I've said enough about

already. The federal government perhaps doubted its own authority to conduct such a critical study—and certainly the labor of the mountain brought forth a ridiculous mouse. But in the latter the state departments (still with undisputed insurance authority) co-operatively sought not to correct evils but to anticipate and prevent them. Armstrong was a member of the New York legislature who, I suspect, knew little about insurance but had heard a great deal about it and believed the worst. The Guertin committee was made up of men who knew insurance and its scientific foundations. The modern mortality table and the sensible reserve and non forfeiture systems it advocated have become part of the insurance legislation of all our states. Undoubtedly, if the progress of life insurance is to be measured by the difference between the Armstrong investigation of 1905 and the Guertin committee findings released in the 1940's, that progress has indeed been genuine and notable.

The second decade may be regarded as a period of happy reconstruction in which public confidence was fully re-established. Near the end of the period two dire events greatly stimulated the popular desire to increase insurance holdings—war and pestilence. When the war came, the companies could no longer issue "free from war" clauses and, at regular rates, policies to prospective soldiers who then were most in need of them, thus calling abrupt attention to the old adage, "Oh you never miss the water till the well runs dry." And the flu emphasized in a way far too dramatic the genuine prevalence of death.

With World War I came War Risk insurance, supplied by the government to its soldiers, otherwise (most of them) uninsured and uninsurable at rates they could afford. Thus, almost overnight Uncle Sam put $40,000,000,000 of life coverage in force—more than all United States companies combined had laboriously built up in seventy years of organized effort. Subsequent events have demonstrated that this particular bit of government-in-business was splendid free advertising for the business conducted by private enterprise. Can it be that, after enough experiments of the kind, our legislators, whether federal or state, will see that what is so good as to deserve government subsidies through federal bureaus in an emergency should be nearly or wholly tax exempt in times of peace when private carriers conduct it for the public good?

If the second decade marked sturdy advance for American life insurance, the third was a period of advance with banners. As a consequence of the preceding period, the business enjoyed extraordinary expansion in volume and extension in both customers and benefits. Now group insurance, though still an infant, displayed the strength of Hercules. Now new or newish added benefits attained popularity—disability waiver of premiums, double indemnity, widespread insurance of impaired lives, disability monthly income, reinsurance arrangements (no longer, after the war, imported from Germany and Switzerland), non-medical issues, monthly premiums, vastly extended types of coverage, and the rest. Above all, this was the decade of the magnification of the beneficiary. She must be more adequately protected, not with a

mere pot of gold dumped in her lap, but with all sorts of ingenious income settlements. This made for more insurance for each policyholder and also for larger average policies.

As the rage for speculation swept over the financial world, insurance salesmen would have been more than human had they resisted the temptation to liken their wares to those of their competitors — to call premiums, deposits; to dub endowments, income bonds.

But, broadly speaking, life companies were not swept off their feet by the speculative gales. Here and there fantastic and economically inappropriate competitive features were introduced, like disability income doubling after a fixed term of disability—when less rather than more family funds would be required by the sufferer's household now that readjustments had been established. It is a pleasure to record that the inventors of that particular device unwarranted by normal social needs had to pay the piper handsomely.

And I may as well cite one further (perhaps happily forgotten) example of a little rift within the lute. Several companies felt driven by competition to draft annuities containing a "gold" clause—you can readily guess its import. Of course, when a few years later there was no more gold money, the clause was decreed to be of no effect. But the moral is inescapable: No reputable insurer can righteously issue a purported special privilege to a particular favored group without extra charge. Even less can it justly proclaim a special privilege where none genuinely exists.

The "New Era" was just about to expire when insurance in force crossed the $100,000,000,000 mark. The tumult and the shouting occasioned thereby were still fairly fresh when it crossed it again— backwards. Yet it did take the Great Depression some time to communicate its full effects to life insurance. Then came once more the dismal days of high surrenders, low new issues, actual decrease of total insurance in force, and the worst wiles of unscrupulous twisters, battening on policy owners in distress. To these woes were added high suicide mortality among the over-insured, and huge claims for total-and-permanent-disability income—too many of them really unemployment doles in disguise. Yet all through this decade the basic security of life insurance, in contrast to that of the supposed securities in which the American public had so rashly indulged, became increasingly manifest. Consequently, with the advent of the 40's it is probably true that in the minds of the people life insurance ranked higher among the good things of life than it had ever ranked before. Certainly by this time the field underwriter (once the insurance agent) was eager to demonstrate the great gulf fixed between insurance premiums and deposits formerly placed in now frozen bank accounts.

At this point, if ever, I might say a word about the excellent training nowadays afforded career insurance salesmen as against the haphazard work done by the companies when I was seventeen, but that story belongs rather under your section "The Half-Century in Insurance Education." Certainly the variety and complexity of the policies now

commonly offered, including often the ingenious dovetailing of temporary coverage, permanent coverage, and life income benefits in a single handy package, demand scrupulous education of the sales forces. In 1901 "Straight Life, "20 Pay" Life, and 20 Year Endowment maintained in the insurance world the same haughty pre-eminence held by the "Three R's" in the little red schoolhouse.

Perhaps these snatches of history are sufficient to suggest why, on the eve of a new half-century, life insurance sales, life insurance in force, benefits tto dependents, payments to policyholders, all stand at peaks which would have been deemed fantastic had they been predicted at the beginning of the century or even at the close of the first World War. Among the noteworthy episodes of this final decade, quite apart from the problems arising during the greatest war in the history of the world, two require individual mention. One is the interesting fact that life insurance *is* interstate commerce after all with all the changed emphasis concerning supervision and taxation that such a Supreme Court decision implies. The other is the grand step toward improved uniformity and sensibleness in state legislation and supervision, exemplified by the Guertin investigation and legislation already referred to as a happy contrast to that of the first decade. But lest as an insurance man I should appear to be bragging a little, please let me put on record again what I have said to some of you before. Like all other institutions ministering to social needs, life insurance merely reflects its environment. It is the expansion of our nation that makes possible the growth of this particular democratic enterprise within it. We are fortunate enough to live in a country ideally situated for the conduct of that business with the utmost success for all concerned. In the United States we find extending uninterruptedly across a vast continent a single monetary system, a universal language, no tariff barriers, and a popular government dedicated to the principles of private initiative, free enterprise, and the dignity of the individual citizen. Add to this a land of seemingly inexhaustible resources, of unimaginable wealth, and of unparalleled prosperity, whose scores of millions of inhabitants enjoy a standard of living high beyond precedent, and you have a nation where the opportunities for the beneficent and appropriate application of life insurance to the needs of all the people, with a minimum of restrictive supervision and a maximum of ingenious skill, are unmatched anywhere else in the world.

Attention has recently been directed to the race in this country between the annual national income and the total amount of life insurance in force. They have run neck and neck through most of the 1940's. It should be a challenge to men in the field to think that all this vast volume today is not quite equal to the current year's national income; a comfort, too, as indicating that the saturation point for insurance sales is yet far hence.

The immensity of national income is likewise a sad reminder of the shrinking purchasing power of the dollar. But, disquieting as inflationary tendencies always are, we must never forget that for the buyer of insurance a powerful force is operating in the opposite direction. The

premium dollars are dollars the buyer can spare. The resulting income dollars are the dollars the beneficiary (or the old man dependent on his endowment income) can never spare. Even if the inflationary force were as high over quite a prolonged period as 3% compounded annually, I'm not sure that this countervailing force of increasing later need for the benefits would not, broadly speaking, more than offset it!

From this desultory outline I hope some of you may fairly conclude that stupendous growth and genuinely increased value, great power and real progress, have not been divided. But the outline would be most unfair if it failed to emphasize further transformations that constitute this history. Annuities, barely salable in 1901, are now not merely being bought in great volume but are actually giving life incomes in amounts incredible even twenty-five years ago. The new vast system of group insurance in its influence goes far beyond insurance against death and the providing of life incomes, since it seems bound more and more to cover health, hospitalization, doctors' and surgeons' fees, and much else that is still hardly beyond the experimental stage. The government's own place in life insurance even in our domestic economy has been voluminously explored by others, yet has barely been mentioned here as one more development of the half-century. The story of investments and of the frequently acute investment problems precipiated by wars, pandemics, investigations, financial panics, and even moratoria would, if more than glanced at, use up all my time. It is amusing that both the century began and the half-century will begin with rather gloomy views about the future course of the interest rate. The old misgivings were pretty well discredited during the first quarter of this century but few actuaries are optimistic enough to believe that in this respect history will repeat itself from 1951 through 1975. With that one refusal to indulge in prophecy, I must close this survey of what this great continent has done in the way of the transformation of a particularly interesting, important, and beneficient institution brought to it from overseas.

But since I began my discussion by quoting from one of your great university teachers, who later became a great war president, please let me close it with a quotation from a distinguished British actuary who in the 1890's examined the course of insurance history to his own day in truly Johnsonian periods. Thomas Emley Young, the author of a whole book on centenarians, lived to be the oldest actuary in London, or for that matter, I suppose, the oldest actuary in the world. He ended his summing up of insurance history to the 1890's with a bit of powerful prognosis which I wish world conditions permitted us to reiterate with like optimism, now that his prophecy has been tested for half a century:

> . . . . we are . . . . restricted to the profitable duty of tracing the beneficient history of Insurance in the past; of observing the succession of its natural stages, and its amplitude and flexibility of fertile adaptation to the advancing and varying needs of man and his social arrangements; and of predicting that, momentous and impressive as have been the applications of Insurance in the past, it is destined in the future to confer an ever-expanding

benefit upon the social conditions of life, and to aid materially in promoting a completer co-operation of men in sympathetic action, with a consequent closer communion between the nations of the Earth.

The Half-Century in Property-Casualty Insurance

by

Milton W. Mays, Insurance Executives Association

The subject assigned to me "The Half-Century in Property-Casualty Insurance," does not seem to place any restrictions on what I should or should not say. So I have taken as many liberties in the preparation of this paper as have suited my fancy. If I look ahead more than I look back, it is because the subject given to me does not indicate which half-century I should discuss — the one just passed or the one immediately ahead.

It probably is in order for me to summarize very briefly the status of the property-casualty business in the year 1900. The premium volume of the former (property) was approximately 147 millions of dollars in 1900 and approximately $2,800,000,000 in 1949, and of the latter (casualty) 23 millions of dollars in 1900 and almost $5,500,000,000 in 1949, the latter figure including premiums from accident and health insurance and related lines.

In 1900 there were 31 casualty companies, 169 fire or inland marine companies, and 13 marine companies licensed in New York State. The insuring powers of the several types of companies were defined categorically in the statutes. The rights of the states to regulate the insurance business had previously been established by the Supreme Court of the United States. The regulation of that day was more in the nature of licensing and supervision with very little affirmative regulation of rates or rate making. State regulation was limited largely to provisions relating to: organization and licensing of insurers, examination of insurers, licensing of agents and brokers, taxation, and valuation of securities. Those lines of insurance which later were to account for such a large portion of the premium income of property-casualty companies, namely, automobile, inland marine, workmen's compensation, extended coverage, and public liability for the most part had not even been heard of in 1900 or were written to only a very limited extent.

I have found it impossible to refer chronologically to the events of the period under discussion for the reason that some of the changes were so gradual that many of the more important developments overlapped. By the order of my remarks I intend to infer no particular sequence of events. I have also been unable to draw any clear line between the property and the casualty branches of the business without going into a great amount of detail which time does not permit. The property insurance business, having been started in a substantial way long before the real beginnings of the casualty business as we

know it today, established the philosophy of the property-casualty business. The casualty branch of the business having been largely under the financial control of the fire companies in years past, naturally embraced much of the basic philosophy of the fire insurance business. My remarks, therefore, will deal rather generally with the property-casualty business as a whole with scant attention to developments peculiar to either branch of the business except when such developments were of such import as to have material bearing on both fire and casualty companies.

For reasons which I feel I need not explain to you, it has been generally believed in the property-casualty business that it is in the public interest, and in the interest of the insurance business as well, that all companies charge the same price for the same kind and extent of insurance coverage. All of this being in addition to the practical consideration that the experience of any one company usually is not reliable as a guide for rate making. Since there was little or no statuory authority in the early part of this last half-century for the regulation of rates in the insurance business, it fell to the business to devise some means of self-regulation of rate making and related activities. This was undertaken by the establishment of so-called rating bureaus with agreements among the members or subscribers to such bureaus to adhere to the rates and to abide by the rules of such organizations.

Self-regulation of rates without comparable control over the specifications of the products to which the prices apply would be quite meaningless. Consequently, it was necessary that self-regulation within the insurance business be extended to policies and forms with the members and subscribers of rating bureaus agreeing among themselves to use only the policies and forms prescribed by the bureau for which rates had been promulgated. This pattern of self-regulation subsequently was broadened to include self-regulation of commissions, appointment of agents, exchange of reinsurance and the like.

Here was the picture just prior to the S.E.U.A. case, all of this being substantial conformity with the accepted theory and principles of state regulation. Voluntary inter-company agreements and penalties for violation thereof existed for the control of the following:

1. Rate making
2. Policies and forms
3. Commissions
4. Agency representation

Certain of the agreements relating to one or more of the above subjects had specific statutory sanction in certain states, but for the most part these inter-company agreements existed with nothing more than the silent approval or acquiescence of state supervisory authorities. In the light of the philosophy of recent Supreme Court decisions, it could hardly have been expected that the type of self-regulation as practiced by the property-casualty business and as just described would have been viewed with approval by the Supreme Court.

As you well know, the court never was called upon to rule upon the legality of such practices as just outlined. Reversal of previous decisions on the point established insurance as commerce and as such, subject to federal statutes regulating interstate commerce. The companies were not tried for violation of the anti-trust statutes.

The Supreme Court decision that insurance was commerce called for an immediate examination of all the practices and customs which had grown up with the business under the system of state regulation. The following conclusions were reached in the course of this self-examination:

1. In all probability, agreements as to rates and rate making would not be permitted without specific statutory sanction or requirement.

2. In many states then having rate regulatory laws, such laws probably would have to be revised and strengthened.

3. It was generally agreed that an effort should be made on an industry basis and with the co-operation of state regulatory officials to draft a model state rate regulatory law and to work for its passage in an attempt to preserve state regulation of the insurance business.

4. It was agreed that rate-making methods and practices should be examined carefully to determine if they would permit compliance with anticipated state rate regulatory requirements. At the same time it was agreed that any obvious and easily remedied defects in rate-making methods revealed by such an examination should be corrected immediately.

5. The old system for classifying premium and loss statistics was found to be out-of-date and consequently the experience statistics produced thereunder were of limited use. It was agreed that immediate steps should be taken to set up a new system for classifying premium and loss statistics for fire and allied lines.

6. The weight of legal opinion was that in the absence of statutory permission, companies could not legally agree among themselves or through voluntary associations on rates of commissions to agents or brokers.

7. Further, it was felt that for the present no attempt should be made to obtain the passage of legislation to permit agreements to fix rates of commissions to agents or brokers; nor should states be asked to or encouraged to take action on this matter. It was hoped that control of rates plus the forces of competition would keep commissions at a reasonable level.

8. It was unanimously determined after a considerable amount of deliberation that restrictive rules respecting agents or brokers, general agents, exchange of reinsurance,

and the like, could not be sustained and should immediately be revoked, since it was unlikely that any statutory authority for such rules could be secured, and it was at least questionable whether such rules are in the interest of companies, agents, brokers or the public.

The conclusions summarized above were so far reaching as to require a virtual reorganization of the property-casualty business. Probably no other business of the magnitude and importance of insurance was ever called upon to make such a complete reorganization of its affairs. In a business so vast, such extensive changes coud not be made overnight so it was determined that an attempt be made to obtain the passage of legislation by the Congress of the United States to permit the gradual accomplishment of the changes agreed upon within the business as being necessary and to effect a continuance of state regulation of the insurance business.

Congress was quick to recognize the local nature of the insurance business and saw fit to grant a moratorium of approximately three years to permit the insurance business to get its affairs in order. During the period of the moratorium, Public Law 15, as it is known, exempted the insurance business from the application of the Sherman Act, the Clayton Act and the Federal Trade Commission Act, except as to agreements to boycott, coerce, or intimidate, or acts of boycotting, coercion or intimidation. Public Law 15 further provided that, following the expiration of the moratorium, the Sherman Act, the Clayton Act and the Federal Trade Commission Act would be applicable to the business of insurance to the extent that such business of insurance is not regulated by State Law.

While such regislation was pending before Congress, machinery was set in motion:

1. To repeal all restrictive rules relating to agency appointments, agency representation, exchange of reinsurance, and the like.
2. To abrogate all agreements as to rates of commission.
3. To set up a new system for the classification of experience statistics for fire and allied lines and upon completion of this, to study the problem of rate-making.
4. To prepare a model rating law which would permit cooperative action among insurers for purposes of rate-making and to urge its passage in each of the states in the United States.

The first two of the goals have been realized in what I am certain will some day come to be regarded as one of the greatest feats of reorganization on a national scale ever attempted by any major business. Restrictive agreements either between companies or through their vountary associations as to agency appointments, commissions, exchange of reinsurance, etc., are a thing of the past. As far as insurance com-

panies are concerned, all such agreements in which they were involved have been canceled. A new system for classifying underwriting experience of fire insurance companies has been developed and has been in effect for several years.

Agreement was reached on a model rating for fire and casualty business, this bill being commonly referred to as the All-Industry Bill which in substance is now in effect in the majority of states. All of you, I am sure, are familiar with this bill so I shall not refer to it in detail except to point out that the meat of it is in the following:

> "(a) All rates shall be made in accordance with the following provisions:
>
> 1. Due consideration shall be given to past and prospective loss experience within and outside this state, to catastrophe hazards, if any, to a reasonable bargain for profit and contingencies, to dividends, savings or unabsorbed premium deposits allowed or returned by insurers to their policyholders, members or subscribers, to past and prospective expenses both countrywide and those specially applicable to this state, and to all other relevant factors wthin and outside this state.
>
> * * * * *
>
> "4. Rates shall not be excessive, inadequate or unfairly discriminatory."

Having agreed upon a rate regulatory bill and having pressed for and succeeded in its passage in the several states, the business very quickly came to the realization that it did not have and was not organized to obtain all of the information needed to benefit from the protection such legislation afforded. The most conspicuous deficiency related to needed expense data.

The problem of uniform classification of expenses and the gathering of reliable and comparable expense data was solved for the business by the New York Insurance Department with the promulgation of Regulation No. 30 which provides for uniform classification of expenses and prescribes certain rules for allocation of expenses of fire and casualty insurers. While Regulation No. 30 leaves much to be desired from the standpoint of management and does not provide for expense data that is entirely adequate for rate-making purposes, it must be said that as to the latter, it provides for the collection of much more usable data than heretofore has been available.

The examination of the rating methods of the business continues. Many of the systems of rate-making now in use were not designed to accommodate the requirements of the All-Industry type of rate regulation. If further study indicates that major changes in our rating procedures are indicated, the business will be faced with an immense undertaking with staggering expense and perhaps a considerable upheaval in rates and rate levels.

Today, the barriers between the property and casualty business are fast disappearing. I refer, of course, to the comparatively recent adoption of multiple line legislation in some of the more important insurance states. I am not going to take a great deal of time discussing this subject since there has been so much debate on it already. I must say, however, that there has been a great deal of misunderstanding on the subject of multiple line underwriting. Even before this subject came into recent prominence there were more than 30 states which permitted exercise of complete multiple line underwriting powers. The big stumbling block to more widespread adoption of complete multiple line underwriting powers was New York State and its Appleton Rule which was killed legislatively several years ago. Prior to the general enactment of multiple line legislation, there was the strange situation where property insurance companies could write certain third party insurances, for example: fire or explosion legal liability, garage keepers' liability, protection and indemnity insurance, but could not write public liability or automobile liability insurance. At the same time casualty insurance companies could write certain kinds of direct damage insurance such as steam boiler explosion insurance or water damage insurance, but could not write simple explosion insurance or sprinkler leakage insurance. Now that the legislative barriers have been removed it is possible to do with one company, in all but a few states, what it took two companies to accomplish previously. Actually this is all that multiple line underwriting implies.

Unfortunately the water has been muddied by some who have assumed that the writing of comprehensive or all-risk policies is a necessary part of multiple line underwriting. If there is a demand for broader forms of coverage under a single policy than has previously been available, and if such broader forms of coverage can be written without departing from sound principles of underwriting, then comprehensive or all-risk policies will be made available as permitted under multiple line underwriting legislation. Indeed some have already come on the market. It is still too early to predict how extensively broader forms of coverage will be put on the market, but the inclination of the business is to proceed cautiously particularly where unknown hazards with catastrophe possibilities are involved. Only time will tell whether the numerous advantages and benefits claimed for multiple line underwriting can be realized.

A big problem in connection with comprehensive or all-risk coverages — one which must be dealt with before any real progress is made in this direction — is a rating problem. While there is no legal barrier that I know of to fire rating bureaus determining and promulgating rates for coverages that traditionally have been called casualty—nor to casualty rating bureaus doing the same for traditional fire coverages, there are very serious legal and practical objections to one company belonging to two rating organizations for rating the same kinds of coverages.

Some have suggested that the simple solution to this very difficult problem would be to set up a single nationwide bureau for rating all

classes of business. But like all simple solutions to difficult problems, this one is not quite as easy as it sounds. There are many practical problems that would make such a seemingly simple solution difficult of early accomplishment. Whether time will resolve all the conflicts and solve the many practical difficulties that seem to stand in the way of the establishment of a single nationwide bureau for the rating of all classes of coverage, I have no way of knowing.

This is one of the important questions before the business for the forepart of the next half-century and one on which there is considerable diversity of opinion. Can the property-casualty business come to a speedier and more satisfactory solution to one of its most pressing problems, that of rate-making, by centralizing all of its rate-making activities in one national organization? Can the states that are now experiencing difficulty in adequately regulating the property-casualty business on a state-wide basis under strict rate regulatory laws presently in effect adequately regulate the business if all of the rate-making functions of the business are centralized on one national rate-making body? Could traditional barriers, which it must be admitted are quite arbitrary for rate-making purposes, be maintained by a national rate-making organization? Could the property-casualty business escape the inevitable charge of monopoly if all of its rate-making and related activities were centralized in one national bureau?

Please bear in mind that the test of state regulation is its adequacy and, under Public Law 15, the Sherman Act, the Clayton Act and the Federal Trade Commission Act apply to the extent that the property-casualty business is not regulated by the states. Can state regulation be preserved, if that be desired, by centralizing all rate-making activities of the property-casualty business in one organization with scope and activities extending beyond the boundaries or authority of any single state.

In its earnest attempts to solve the problems before it, the property-casualty business might very well make the mistake of striving for an ideal or a degree of perfection that is not practically attainable or desirable. State regulation in its present pattern can be made not to work either by expecting of it results that management properly should produce or by a concentration of activities too vast for the individual states to regulate. The business cannot enjoy the benefits of state regulation without accepting its shortcomings.

In closing I want to point out the obvious — that there still is a considerable difference between government regulation and government control and that should state regulation prove to be inadequate, there now exists a uniform pattern of regulation developed largely by the property-casualty business that might serve as a model of regulation by the Federal Government. This uniform pattern of regulation, you will recall, did not exist in 1944 when the Supreme Court of the United States declared insurance to be commerce and, as such, subject to federal regulation, nor did it exist at the time of passage of Public Law 15.

Governments, both Federal and State, are in the field of private insurance to far greater extent than is generally realized. Further encroachments on private insurance, particularly by the Federal Government, is much more than a remote possibility. Apathy on the part of the insurance business in completing its adjustment to the requirements of changed conditions or failure of the states to provide "adequate" regulation of the business, as contemplated under Public Law 15, would materially enlarge the threat of federal regulation or control.

The Half-Century in Insurance Education

By

Professor David McClain, University of Pennsylvania

When accepting the assignment to speak on the subject which has been announced to you, I asked that I be permitted to restict my discussion to insurance education in higher institutions of learning. In part, this is because we popularly associate the word "education" with the instructional activities in colleges and universities and the word "training" with the instructional activities of companies and associations, even though in a broad sense there is necessarily much overlapping. In part, it is also because we associate the word "education" with the impartation and acquisition of knowledge, principles, understanding and the like, whereas we associate the word "training" with exercises or practices to develop skills, techniques, facilty in application, proficiency. The emphasis in "education" is on **thinking** — a grasp of the "whys"; contrariwise, the emphasis in "training" is on **doing** — a grasp of the "hows." Ordinarily, the goal in the former is long range and concerns itself with the mental growth of the individual; in the latter it is of short range and concerns itself primarily with the immediate productive efficiency of the person.

Other reasons for restricting my subject are the probable greater interest of most of you in the narrower area of discussion, the availability of more adequate data covering a longer period of time, and, from a personal point of view, the wider range of opportunity my own work has given me for observation and study of activities and trends in the college and university teaching of insurance subjects.

One further qualification is important in the interest of precision. My discussion will have to do essentially with insurance courses which are identified as such by the institutions offering them. Some aspects of insurance principles and practices are taught today in a great many colleges and universities which are not offering formal courses in the subject. In fact, as indicated in the report on the latest survey with which I am familiar:[1]

> "Three hundred and fourteen colleges and universities reported this to be their current practice. There is, of course, wide variation in the time devoted to insurance in these courses, the

[1] "College and University Courses in Insurance and Related Subjects," David McCahan and Morris Hamburg, The S. S. Huebner Foundation for Insurance Education, 1949.

greatest proportion apparently being allotted in courses on commercial law and mathematics of finance. The list of course in which at least some time was given to insurance is very long and includes, by way of illustration, business law, business mathematics, business organization and management, corporation finance, real estate, advanced accounting, current economic problems, consumer economics, labor problems, investment theory and practice, business and government, transportation, foreign trade, personnel management, small business management, and wills, estates and trusts."

This fact should obviously be kept in mind in connection with every subsequent reference to dates at which certain courses were inaugurated.

Subject to the qualifications suggested by these prefatory comments, I should like to direct our thought along three principal lines, namely, (1) the trends in number and type of insurance courses, (2) important organizations influencing the nature and content of insurance education,, and (3) significant concepts influencing the nature and content of insurance courses.

Trends in Number and Type of Insurance Courses

The Beginnings

The story of insurance courses in the colleges and universities of the United States is encompassed largely within the past half-century. In fact, the four comprehensive surveys[2] in which I have presonally had an opportunity to participate during approximately twenty years disclose but three courses as having been introduced prior to 1900.[3] All of these

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[2]Insurance Instruction in American Universities and Colleges, S. S. Huebner and David McCahan, Annals of the American Academy of Political and Social Science, May, 1932; "College and University Courses in Insurance," David McCahan, American College of Life Underwriters, 1936; "College and University Courses in Insurance and Related Subjects," David McCahan and Anna M. Kelly, American College of Life Underwriters, 1940; "College and University Courses in Insurance and Related Subjects," David McCahan and Morris Hamburg, The S. S. Huebner Foundation for Insurance Education, 1949.

[3]The sources of information for this and other statements in this section are the questionnaires submitted by colleges and universities in connection with the four surveys to which reference is made in Footnote 2. It is recognized that some courses may have been overlooked because the institution failed to submit a completed questiannaire, or if it did submit a questionnaire, it may have failed to include a course which had been introduced and subsequently dropped, may have reported erroneously the date of adoption, or may not have included the date for lack of readily accessible information. In spite of these possibilities for error, it seems reasonable to assume a high degree of accuracy in view of the fact that the surveys have been made at different times over a period of eighteen years and the results widely circulated, including distribution to every institution contributing any data.

were in Insurance law — Boston University, the University of Pennsylvania and Washington University reporting their courses as having been started in 1874, 1876 and 1877 respectively. The year 1900 itself saw additional courses in Insurance Law at Union College, the University of Missouri and the University of North Dakota as well as the introduction of Actuarial Science courses at the University of Michigan.

1901-1910

Courses for the general student and for persons desirous of preparing for types of insurance activities other than those of legal or actuarial character got their start in the first decade of this century, much of the pioneering work in the field being done by Dr. S. S. Huebner at the University of Pennsylvania.

By the end of 1910 the situation stood as follows:

1. General or Survey courses had been introduced at seven institutions, namely, the Illinois Institute of Technology, Iowa State Teachers College, New York University, Trinity College, University of California, University of Pennsylvania and Yankton College. One of these were offering four such courses in different divisions of the University.

2. A special Life Insurance course had been introduced at the University of Pennsylvania, and Property Insurance courses at Armour Institute of Technology, New York University, University of California and the University of Pennsylvania.

3. A course in Actual Science had been introduced at the University of California in addition to the courses at the University of Michigan previously mentioned.

4. Courses in Insurance Law had been introduced at Fordham University, the Indiana Law School of Indianapolis, University of Illinois, the University of Kansas City, University of Kentucky, and the University of South Dakota, in addition to those at Boston University, the University of Pennsylvania, Washington University, Union College, University of Missouri and the University of North Dakota above noted.

Thus, twenty institutions had introduced one or another type of insurance course by the close of 1910 but eleven of these were giving only Insurance Law, four were giving only General or Survey courses, one was given only Actuarial Science, and one was giving only Property Insurance. There were but three — New York University, the University of California and the University of Pnnsylvania — which wre providing instruction in more than one branch.

1911-1925

Whereas the emphasis in the early years had been largely upon Insurance Law and Actuarial Science, the trend from 1911 to 1925 was in the direction of General or Survey courses, and special courses in Life Insurance, Property Insurance, Property and Casualty Insurance, and Casualty Insurance. This is readily apparent from Table I which shows

"Dates of Adoption for Insurance Courses," classified by type of course. The table is derived from the survey published by The S. S. Huebner Foundation for Insurance Education in 1949.[4] It shows that of the seventy-two new courses reported during the 1911-1925 period, fifty-six

1926-1948

The seed which was sown in the first quarter-century began to bear substantial fruit in the quinquennium starting in 1926 and continued to be fruitful throughout the next quarter-century, as is evidenced from Table I to which reference has been made. As will be noted therein, the trend in the number of courses in General Insurance, Life Insurance, Property Insurance, Property and Casualty Insurance, and Casualty Insurance was exceptionally well marked, there being 638[5] such courses in 1947-48 out of a total of 853. These are courses in which the emphasis is essentially upon principles. Many of them — sixty-one in Life Insurance with an enrollment of 1707, and seventeen in Property and Casualty Insurance with an enrollment of 610 — have been created primarily for candidates desiring to study for either C. L. U. or C. P. C. U. examinations.[6] These seventy-eight courses are given in evening or extension divisions and frequently do not carry degree credit, although in numerous cases their substantial counterparts are likewise available for credit in the undergraduate or graduate school of the same institutions.

Other trends in this period are also noteworthy. Courses in Social Insurance and in Insurance Law for general business students have jumped in number to forty-three and twenty-one respectively from the single course which was being offered in each field prior to 1926. Courses in Insurance Law in professional law schools have likewise shown a healthy increase, although the dates of adoption not having been stated

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[4]That survey covered virtually every college and university which awards academic degrees and in addition some 800 law schools, technological colleges, teachers colleges and junior colleges. Not only was great care exercised to make the survey comprehensive but a diligent effort was exerted to keep in touch with the officials of each institution until all pertinent data had been secured.

were in the subjects above mentioned as contrasted with seven professional courses in Insurance Law and four in Actuarial Science. Of the other five, three were insurance Research or Seminar courses, one was Insurance Law for lay studnts, and the other was in Social Insurance. The last named — at Ohio State University — may be regarded as the forerunner of a trend which would become quite marked in the depression years.

[5]Including fifteen of a correspondence or reading character.

[6]Attention is again called to the fact that college and universities also offer a great many courses in the subjects other than insurance which are covered by the C.L.U. and C.P.C.U. program. Such courses are not included in the statistics of Table I.

TABLE 1 DATES OF ADOPTION FOR INSURANCE COURSES (As reported for 1947-48 in Huebner Foundation Survey)

	General or Survey	Life Insurance — Principles Practices Economics	Life Insurance — Other	Actuarial Science & Mathematics of Life Insurance	Property Insurance	Property and Casualty Insurance	Casualty Insurance	Insurance Law — (Business)	Insurance Law (Professional) —	Social Insurance	Insurance — Research & Seminars	Miscellaneous	Total
1910 & before	6	1	—	4	1	—	—	—	8	—	—	—	20a
1911 to 1915	5	4	—	—	4	—	1	—	—	—	1	—	15
1916 to 1920	2	7	—	1	6	1	2	1	6	—	1	—	27
1921 to 1925	9	7	—	3	3	2	3	—	1	1	1	—	30
1926 to 1930	27	20	—	—	10	1	7	—	5	3	2	1	76
1931 to 1935	20	10	—	—	7	1	4	1	7	4	1	3	58
1936 to 1940	51	13	—	1	9	2	9	4	7	13	1	—	110
1941 to 1945	16	7	1	2	13	9	8	1	1	6	—	2	66
1946 to 1948	42	22	7	5	15	13	24	5	2	4	3	5	147
Not Stated	59	94	8	12	25	14	22	9	39	12	5	5	304
TOTAL	237d	185ce	16c	28b	93ce	43c	80cf	21	76	43	15	16	853g

a. This figure is smaller than the number of courses reported for the same period in all the four surveys together to which reference is made in Footnote 2. Attention is called to the fact that the discussion under the heading "1901-1910" is based on the combined figures of four surveys and not merely on that covering only the academic year 1947-48.
b. Excludes the courses given at two universities which have relatively complete actuarial training programs.
c. Excludes courses given for C.L.U. or C.P.C.U. candidates in subjects other than insurance itself even though the course might be popularly regarded by students as in the field of insurance.
d. Includes three correspondence courses and a reading course.
e. includes four correspondence courses.
f. Includes three correspondence courses.
g. Includes fifteen correspondence or reading courses given by certain of the institutions included in this table which also give courses in residence.

for such a goodly proportion of the seventy-six now offered renders impossible any very broad generalization as to trend.

There has been considerable experimentation in rather specialized types of courses, many of a vocational character. For example, sixteen courses have been initiated in subjects closely centered around the subject of Life Insurance. Thse have borne such titles as Life Insurance Marketing; Career Underwriting; Business Life Insurance; Life Insurance Salesmanship; Life, Group and Social Insurance; Retirement Plans; Estate Protection and Tax Insurance; Life Insurance Accounting; and Finance of Life Insurance. Of these the Institutes of Life Insurance Marketing at Purdue University and Southern Methodist University are doubtless best known. They combine concentrated campus study and field life insurance training on a full-time basis for one year. The campus study which covers an aggregate period of thirteen or fourteen weeks of work is interspersed with thirty-eigh or thirty-nine weeks of field work under the joint supervision of institute staff and of general agents or managers concerned. Approximately fifty or sixty students are on the campus of each institute at any one time, alternating with other groups engaged in field training.

Twenty-four specialized or vocational types of courses have also been set up in the Property and Casualty Insurance field under such titles as Schedule Rating; Fire Insurance Schedules; Fire Insurance Methods; Aviation Insurance; Burglary Insurance; Automobile Insurance; Disability Insurance; Accident and Health Insurance; Workmens Compensation Insurance; Industrial Liability and Compensation Insurance; Casualty Adjustments; and Fidelity and Surety Bonds. A few of the courses in this group are patterned after the course designed by the National Association of Insurance Agents.

Sixteen other specialized or vocational courses not so closely related to any one of the principal branches of insurance should also be noted. They bear such titles as: Loss Adjustment; Insurance Selling; Insurance Practice; Insurance for the Consumer; Title Insurance and Escrow; Insurance Problems; Special Problems in Finance-Insurance; Loss Prevention Insurance; Insurance for Industry; Insurance Company and Agency Management; Economic and Social Aspects of Insurance; and Analytical Underwriting. A very substantial proportion, but not all, of these fifty-six courses that are essentially vocational in character are offered only in evening or extension divisions and frequently do not give degree credit.

No pronounced trends are discernible in the number of Actuarial Science or Mathematics of Life Insurance courses (twenty-eight in 1947-48), or in Research Courses and Seminars (fifteen in 1947-48), but this may in part be due to the lack of data on time of adoption.

Two other trends are of note. The first is the number of institutions which list Insurance as one of the fields of subject matter in which "majors" are recognized for either undergraduate or graduate degrees. By

1947-48 there were thirty-seven permitting such specialization for undergraduates and at the same time offering at least six class hours of instruction per week in two or more of the four principal fields of insurance. Twelve of that number also permitted such specialization for graduate students. Undergraduate students in six other institutions, and graduate students in two of that group, also appear to have the same instructional advantages as respects course availability, even though Insurance was not officially reported as a recognized "major." The second trend is in the extent to which insurance is a required subject for students in some field of commerce or business administration, seventy-three institutions reporting that during 1947-48 one or more insurance courses were required subjects either for all or for certain groups.

Significance of the Collegiate School of Business

The marked growth in insurance instructional activities of higher educational instructions has paralleled the rise in number and significance of collegiate schools of business. As indicative of ths parallel growth, it is interesting to observe that in 1900 there were only three collegiate school of businiss with but a few hundred students enrolled, whereas by 1948 the number had increased to 155 with an aggregate enrollment of 185,356 in their Day Divisions and 82,006 in their Evening Divisions.[7] Although no insurance courses were being offered in 1900 by the three pioneering collegiate schools of business, 118 such schools in 1948 were offering 457 courses. In addition, the universities with which they were associated were also offering ninteen courses in Acturarial Science and fifty-one courses in Insurance Law. Thus, these 118 institutions were offering 527 courses of the 853 reported in that year by all colleges and universities.

The rise of the collegiate school of business in our higher educational system and its potential meaning for the future have not always been fully understood since most of the growth has come wihin the past quarter-century. But that it is now of major importance is indicated by the fact that in 1949-50, out of 433,734 bachelor's and first professional, 58,219 master's and second professional, and 6,633 doctors degrees conferred by 1294 degree-granting institutions[8] in the United States, 72,137 of the first, 4.335 of the second, and 58 of the third were in the fields of business and commerce. Moreover, 14,573 additional in the first group, 921 in the second and 200 in the third were in economics. That collegiate education in business has come of age can hardly be doubted. Nor should the implications of this for insurance education be overlooked.

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[7]Delta Sigma Pi Twelfth Biennial Survey of Universities Offering an Organized Curriculum In Commerce and Business Administration, 1950.

[8]According to survey made by United States Office of Education. See Higher Education, Vol. VIII, No. 7, Dec. 1, 1950, pp. 78-79.

A Pilot Course for Secondary School Leaders

One other quite recent experiment in types of courses merits a brief comment. Under a special grant from the Institute of Life Insurance, the Wharton School of Finance and Commerce and the School of Education at the University of Pennsylvania set up a Graduate Workshop on Family Financial Security Education during the summer of 1950. Scholarships to this were granted to thirty-two secondary school teachers, supervisors and specialists in higher education — persons in the fields of social studies, business education, home economics and family living being given special consideration. The program was planned to provide during the forenoon fifteen hours per week of lectures and discussions in such areas as life insurance, general insurance, social security, savings programs, borrowing and buying on credit, home ownership, investments, and family budgeting and financial planning. Ten hours per week in afternoons were devoted to work in the Curriculum and Visual Aids Laboratories and development of resource materials for teaching on the secondary school level. This experimental course is being revised in certain respects and will be offered again in 1951, fifty scholarships being made available for it.

IMPORTANT ORGANIZATIONS INFLUENCING THE NATURE AND CONTENT OF INSURANCE EDUCATION

As one notes the trends in number and types of various insurance courses, he cannot escape the fact that the work of certain organizations has materially influenced the development in recent years. Four organizations which have played a prominent role in this are the American College of Life Underwriters, chartered in 1927; the American Association of University Teachers of Insurance, founded in 1932; The S.S. Huebner Foundation for Insurance Education, established in 1940; and the American Institute for Property and Liability Underwriters, Inc., chartered in 1942.

American College and American Institute

Although the American College of Life Underwriters and the American Institute for property and Liability Underwriters were about fifteen years apart in the dates of incorporation, their aims, standards and procedures are very closely coordinated. They are even located in the same building and have their examinations given at the same time and under the same college or university supervision. The former operates in the field of Life Insurance and the latter in the Property and Casualty Insurance fields. One grants the C.L.U. designation and the other the C.P.C.U. designation; each has its own separate Board of Trustees and working Committees.

A fundamental premise of both organizations was that their work should be on a college or professional school level and that their diplomas should have the standing of degrees. Implicit in this was the assumption that the breadth of subject matter to be covered, the selection of textbooks, and the character of examinations would be governed by the

basic premise mentioned. Accordingly, both organizations have sought to maintain the general level of their educational program on a plane commensurate with that of high grade collegiate schools of business such as the seventy institutions presently affiliated with the American Association of Collegiate School of Business. By doing so the level was more or less automatically set at the same height as for Accounting in states having high standards. This arises from the fact that preparation for a professional Accounting career is now largely handled by such collegiate schools of business, the leaders in which naturally want their graduates who have of textbooks, and the character of examinations would be governed by the tions promulgated by the American Institute of Accountants.

It was natural that both of these organizations should seek the assistance and cooperation of collegiate schools of business, not only because such schools were in a position to develop the type of insurance courses that were sought for the purpose of preparing candidates, but also because these collegiate schools of business had already developed and were offering widely most of the subjects other than insurance which are embraced in these two professional programs. Hhus, courses in Economics, Government, Social Problems, Business Law, Insurance Law, Banking, Investments, Corporation Finance, Accounting and Business Organizations were already available with a corps of experienced teachers widely spread on a geographical basis. The importance of this to both organizations and to the cause of insurance education itself is reflected in part in the seventy-eight special courses for C.L.U. and C.P.C.U. candidates to which reference has been made, in the numerous additional special courses in subjects other than insurance, and in the many regular undergraduate and graduate courses in which persons preparing for professional insurance careers have enrolled. These higher educational institutions have truly played an important part in the preparation of the 9,774 persons who have completed one or more parts of the C.L.U. examinations, and of the 1,968 persons who have completed one or more parts of the C.P.C.U. examinations.

American Association of University Teachers of Insurance

Through its annual meetings and its Journal, the American Association of University Teachers of Insurance has provided a clearing house for ideas on educational problems that has enabled members of the Association to benefit from the experiences of others. In addition it has brought to its membership many important addresses and papers pertaining to significant developments in different fields of insurance. Its committees have rendered valuable services both within and without the Association in studying difficult problems and presenting recommendations for solutions. May I remind you in this connection that the American Institute for Property and Liability Underwriters, Inc., to which reference is made above, is really an indirect outgrowth of the work of your Association.

The the Annual Meeting in 1940, this Association adopted a resolution which reads as follows:

WHEREAS the insurance institution has played a vital role in the economic development of this country, has contributed materially to social progress and has promoted government stability, and

WHEREAS the growing complexity of the human needs which insurance can properly meet necessitates broad knowledge and specialized skill on the part of agents, brokers and other field representatives who guide the public in the selection of hazards to be covered, the adaptation of contracts to fit specific cases, the prevention of loss, the preparation of claims, and the generally wise use of insurance services, and

WHEREAS the time has arrived when it appears that field and home office leaders in property and casualty insurance would be willing to support professional standards of a high order for field representatives who advise the insuring public, which standards would be substantially comparable to those which have been adopted in life underwriting,

THEREFORE BE IT RESOLVED that in the interest of the insuring public which needs the services of competent, ethical, experienced advisers and in the interest of the able men and women who wish to prepare for a life career of constructive and effective activity, the members of this American Association of University Teachers of Insurance here assembled endorse in principle the establishment of professional standards for property and casualty insurance and express their willingness to cooperate in an advisory capacity with representatives of the insurance institution in attainment of this goal, and

BE IT FURTHER RESOLVED that the President of the Association be requested to appoint an advisory committee consisting of three members which, with the President as an additional ex-officio member, shall be authorized (1) to convey to leaders in the various branches of property and casualty insurance the sentiment towards professional standards herein expressed, and (2) to extend such assistance of an advisory nature as may be necessary to carry out effectively the general intent of this resolution.

The committee, headed by Dr. Huebner, which was appointed in conformity with this resolution called together in 1941 the leaders in the property and casualty field. They in turn appointed a number of subcommittees to study the situation and in 1942 the American Institute was chartered with broad institutional support.

The fellowship with other members of this Association has meant much to me personally in the eighteen years of its existence and I am sure that it has had a similar meaning to many others of our career teachers. But the real significance of the Association lies in the opportunity which it affords for tackling our serious problems cooperatively. As I see it, we have not yet reached the peak of our potential achievements in this respect by any means.

The Huebner Foundation

Even a cursory glance at the figures in Table I would indicate the need for some measures to enlarge the supply of trained insurance teachers. A rapid growth in the number of insurance courses such as has taken place in the past quarter-century obviously creates a practical problem. This is one of the primary reasons why it was possible to get support for creation of The S. S. Huebner Foundation for Insurance Education and also why the Foundation has for a number of years placed its emphasis upon the award of fellowships and scholarships to persons desiring to prepare for insurance teaching careers.

The Foundation has particularly encouraged those persons who wish to study the dectorate in insurance and who have not only a genuine interest in an insurance educational career but other potential qualifications for making a success therein. Thus far, sixteen of its former fellows and scholars now hold important positions in as many different colleges and universities. Moreover, sixteen others are currently studying for Ph.D. degrees under Foundation grants.

In addition to its fellowship and scholarship awards, the Foundation further stimulates insurance educational activities through its publications. It has already undertaken the issuance of two series of volumes, known as "Huebner Foundation Lectures" and "Huebner Foundation Studies," the first series comprising a compilation of addresses on selected insurance topics and the second presenting the results of thorough research in specific areas. It is hoped that the volumes in these two series may prove useful to teachers engaged in insurance educational work, particularly on the college level, as well as to all others who have at heart the progress and welfare of insurance and the insuring public.

Another way in which the Foundation has been of assistance in the insurance educational field is through services such as that reflected in the survey of "College and University Courses in Insurance and Related Subjects" to which reference has already been made. Less tangible but of growing significance in their cumulative effects are the Foundation's continuing activities in promoting career interest in college and university teaching of insurance, providing insurance research library facilities, and aiding insurance teachers and educational officials with various types of insurance curricular problems.

SIGNIFICANT CONCEPTS INFLUENCING THE NATURE AND CONTENT OF INSURANCE COURSES

Different schools of thought have arisen among insurance teachers on various aspects of their educational work. This is, of course, to be expected in the college or university atmosphere and is an excellent sign of healthy progress. The differences which appear to have assumed the greatest prominence, as reflected in discussions at our own Association meetings as well as in course descriptions and publicity, have to do primarily with the objectives to be sought, the bases of integration with a given institution's underlying philosophy, and the scope, nature, and

arrangement of subject matter. These are often interrelated so that instead of trying to classify them into different groups, I shall merely state the issues themselves.

Risk and Risk-Bearing vs. Insurance

The underlying concept of the Risk and Risk-Bearing type of course has been effectively expressed by Charles O. Hardy in his Preface to the well-known textbook entitled "Risk and Risk-Bearing." After outlining the effort on the part of the Faculty of the School of Commerce and Administration of the University of Chicago "to reorganize its curriculum so as to make its course correspond to the **functions** performed in the process of providing present-day civilized society with economic goods," he added that there are six specific social-economic functions which together cover the entire field of economics and business administration, These are: "production (in the technological sense), finance, marketing, labor, risk-bearing, and social control." Hardy then went on to state:[9]

> "Of the six functions referred to, risk-bearing is the most likely to require explanation. As will be seen by an examination of the Table of Contents of this volume the course out of which it has grown is made up of material much of which has traditionally been presented in courses in the theory of distribution, money and banking, insurance, investments, marketing, and speculation. To some, these elements may perhaps seem incongruous, and it may even be suspected that the principle of selection has been that of lumping together various odds and ends crowded out of other courses. Such a procedure might be justifiable. Indeed, from a practical point of view, one of the direct gains from the organization of the course was that it made possible the offering of what seems to the author an adequate amount of work in life and fire insurance, speculation, and business forecasting to meet the needs of the majority of students, without the necessity of injecting into each subject for administrative reasons a sufficient amount of material to fill out a conventional number of 'student hours' to constitute a course.
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> "It is believed, however, that a course in 'risk-bearing' has a stronger justification than administrative convenience. The connecting thread which runs through all the material is the influence of uncertainty. Indeed, it might be clearer to designate the course as a study of the influence of uncertainty on business affairs. Throughout most of our academic work in business management, emphasis is laid upon the importance of certainty. We are constantly reiterating the fact that efficient management involves scientific investigation to determine the important facts which bear upon our problems and careful study to insure that our plans shall reflect the significance of these facts. The author has no desire to minimize the force of this teaching. Nevertheless, there are definite limits to the applica-

[9] "Risk and Risk-Bearing," Charles O. Hardy, The Universiy of Chicago Press, 1923, pp. xii and xiii.

tion of the scientific method in business. As is pointed out in detail in chaper lii, it is the persistent element of uncertainty which makes necessary the exercise of business judgement, and make possible the reaping of business profit. The principal topics of this course, business forecasting, investment and speculation, and insurance, serve well to bring out the difference between the two fundamental bases for a judgment of probability, on the one hand formulations of mathematical probabilities based on careful statistical investigation, on the other hand the comparison of data which are never sufficient to permit an exact estimate of the chances of success or failure from a given line of effort, yet do suffice to furnish a basis for an intelligent choice of alternatives."

As contrasted with the type of course which embraces the whole field of risk and uncertainty, the Insurance course is primarily concerned with the types of risk and the principles pertinent thereto which can be handled as Hardy indimates, namely, by "formulations of mathematical probabilities based on careful statistical investigation." This has the advantage of affording an inner consistency as respects the general nature of the principles and practices which are included, and also of relating the content directly to an important area of business life which has certain associations in a student's mind that have been gained by observation, or perhaps by experience as a policyholder or beneficiary. Proponents of the Insurance course say, in effect, that they believe the insurance device is so important in our economic life that it not only rates separate treatment but that the principles thereof can be taught more effectively in that way than by "lumping together various odds and ends crowded out of other courses." Moreover, they will not necessarily accept the assumption that such subjects as business forecasting, investment, speculation in securities, commodity hedging and risks of labor necessarily will, or should, be "crowded out of other courses."

Hardy and his fellows have thought of the Risk and Risk-Bearing course as designed for the general or lay student, to be followed by Insurance courses as such for the student expecting to enter insurance work as a vocation. Advocates of the Insurance course for the general or lay student have likewise taken it for granted that advanced courses would be offered for the student having vocational objectives. It is obvious, however, that the nature and content of advanced courses will by governed by the introductory forerunner. This is an important factor in the lack of standardization in second-level courses. Parenthetically, it presents an opportunity for further study and possibly recommandations by this Association or one of its committees.

The popularity of the Risk and Risk-Bearing type of course seems to be on the wane. The course reflected at the outset a doubt as to whether the subject of insurance warrantd a place in he curriculum of the general student in a collegiate school of business equal to a two or three hour course for one term. That doubt appears to have been fully resolved in the minds of many teachers during the past quarter-century as has been borne out by the growth in number of courses heretofore

mentioned as well as by an increase in the number of class hours devoted to the subject.

Topical vs. Line Organization

The question as to whether the subject matter of insurance should be organized around central topics suggestive of common denominators in principles, practices, functions or other factors with the different lines or types of insurance used solely for illustrative or collateral purposes, or on the contrary should be organized around each of the principal branches of insurance, i.e., life, property, and casualty, was often discussed in the early days of this Association.[10] Professor Ralph H. Blanchard voiced his conviction on this at the 1934 meeting in the following words:

> "It seems to me that the somewhat slavish recognition of the traditional divisions of insurance in school-of-business courses and in the development of much of insurance literature is to be deplored. The guiding principle of insurance education ought to be a recognition of the fundamental unity of the purposes, problems, and theory of insurance. Accordingly, I believe that our curricula should stress this unity and should treat the diversion forms and methods observed in practice as illustrative meaterial to be understood and critically examined in the light of basic problems and principles.
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> "Following out this idea, I suggest that Insurance courses should be presented at discussion of insurance problems — organization of carriers, contracts, rates, reserves, state regulation, and so on — all in the light of the fundamental purpose of efficient limination of risk."

At the 1935 meeting, Professor Mowbray expressed a similar belief. He also stated this in the Preface of his book on "Insurance" from which the following paragraphs are excerpted:[11]

> "The various available texts were tried out but were not found suitable for this course. The broad general principles which underlie the insurance business in all its branches seemed to be buried under, or confused with, a mass of details of practice in the individual branches. In short, it seemed that existing texts were in the form of a series, loosely strung together, dealing with the several branches of the insurance business rather than a unified general treatment.
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> "This situation reflected the attitude of practical insurance men, among whom the author has found a general feeling that their own particular branch is unique and has little or nothing in common with the other great branches of the business. This view is, of course, fostered by our statutory provisions classifying insurance into branches and restricting the rights of carriers to supposedly cognate lines. Such lack of unity in the business, which the author believes mistaken

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[10]See Proceedings of the American Association of University Teachers of Insurance, Vols. II (1934), II (1935), IV (1936) and VIII (1940).

[11]"Insurance," A. H. Mowbray, McGraw-Hill Book Co., Inc., 1930, p. vii.

and which has been pointed out by others as inimical to the best interests of the business, seems to be due in part to the absence of literature emphasizing the unity of the business in its fundamental economic service and inherent problems."

Critics of the topical organization question the common denominator premise, at least in part. Professor Robert Riegel, in discussing the Moybray paper at the 1935 meeting, said:

"While this seems desirable as an ideal, it is difficult to apply in practice, partly because current teaching procedure is not a logical but an historical growth, partly because of the scarcity of available material in this form, and partly because the principles are not so universal as we would like to believe."

In amplifying the latter point Professor Riegel added:

"One has to be very contemptuous of details to find any similarity between the methods of making rates for life insurance and for fire insurance. A life insurance agent is certainly very different from a fire insurance agent. The fire insurance policy is unlike a credit insurance policy. One might study title insurance for a long time without obtaining any ideas which would be applicable to unemployment insurance."

Advocates of the "line" (or branch of insurance) organization have not been as vocal in the meetings of this Association but in textbooks which follow that plan of presentation, such as those by Professor S. S. Huebner, Professor John H. Magee and Joseph B. Maclean, stress has been placed upon giving students a comprehensive understanding of each of the important divisions as a whole, believing that this will better facilitate application of its principles to their own particular circumstances. In referring to the purpose and general arrangement of his book on "Life Insurance," Professor Huebner says:[12]

"It aims to bring together in compact and classified form those facts, principles and practices which enable the student, underwriter and layman to have a comprehensive understanding of the nature of life insurance and the legitimate ways in which it may and should be employed in the interest of personal, family and business welfare."

A middle ground has been taken by some teachers who agree with Professor Riegel in certain conclusions reached in his discussion of the Mowbray paper previously mentioned when he said:

"1. There are some aspects of insurance which are so similar in all branches of the business that they may be treated as principles, without respect to the type of insurance involved.

These are less numerous than might at first be supposed, and there are difficulties in so treating them."

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[12]"Life Insurance," S. S. Huebner, Appleton-Century-Crofts, Inc., 1950, p vii.

Many of those who adhere strongly to the "line" approach are mindful of its weaknesses. Thus, at the institution with which I am associated we aim to bring about an integration of the various common denominators and differences of the "line" courses by a Senior Seminar for undergraduate insurance majors and by an upper level course in the Theory of Risk, Risk-Bearing and Insurance for graduate insurance majors. These are desgned to produce the maximum advantages of both types of instructional plans.

Subject-Centered vs. Consumer-Centered

Although there have been some courses developed primarily for the consumer, and the consumer's point of view has had varying degrees of emphasis in courses which would otherwise be classified as subject-centered, it seems safe to say that the fundamental stress has been on the subject. Insurance teachers generally appear to subscribe to the thought expressed by Professor Blanchard at the 1934 meeting when he said:

> "I suggest that there should be no distinction of basic plan between the courses which will presumably be taken by any of the various groups of students. Insurance users need a proper comprehension of the problems of insurers, if they are to think accurately in insurance terms and with an appreciation of insurance problems, in the same way as does the insurance specialist; and in so far as they may be led by university instruction, there seems to me to be no good reason for varying the subject matter of coures to suit the one or the other. Public officials, whatever aspect of insurance administration is to concern them, need the same fundamental education.
>
> "It is probably true that students who are willing to devote a relatively small amount of time to the study of insurance are most likely to be those in the user class, while those who will devote a considerable amount of time will be in the specialist class. I suggest that the variation in curricula fro the two groups should be found, at least principally, in the exent of the treament to be devoted to the various subordinate subjects and not in the choice of subjects nor in their arrangement."

Education vs. Vocational Training

Colleges and universities have traditionally viewed their function as "education" in contrast to "training" as I have used those terms in my introductory remarks. In fact, breadth of understanding, clear-cut grasp of principles, facility in analysis, ability to see relationships and similar desiderata have been mentioned many times as direct or collateral goals of our eaching. We have not generally felt that the college or university should attempt to train insurance technicians who would step directly into specific jobs, no matter how important such jobs may be. Professor Loman implied this in a rhetorical question which he himself answered at the 1935 annual meeting when he said, in referring to the general breadth of education which should be provided for students majoring in insurance:

"Are we trying to train men well-grounded in the entire field of business, men who understand the principles of business administration, men who understand the interrelationship of the various parts of our economic structure, who have high ethical and social concepts, a professional attitude toward their work, men who are leaders of thought in their chosen field, or are we training insurance technicians? Personally I am inclined to the view that a comprehensive training is infinitely more valuable than narrow specialization and unqualifiedly subscribe to the idea that we should not attempt to turn out mere insurance technicians but persons trained in the fundamentals of all business.

"The latter method not only produces men with broader vision and capacities but it also avoids two dangers, namely, (1) that a student will spend his time in studying rountine operations which can be learned better in practice, or (2) that he will specialize intensely and extensively in one thing and later find that his life's work is in something else."

The opposite point of view has been voiced in more recent years by teachers who have essayed specific training functions under college or university auspices. Professor Danforth, for example, summed up his remarks at the 1948 meeting by saying:

"In conclusion. I should like to make two suggestions which are, in my opinion, important factors if our university programs of insurance education are to continue to play an important part in the field of insurance. First, we must ever be alert to the needs and desires of the companies and employees whom we try to serve. Secondly, we must make our courses specific and practical. One of the best ways of meeting this last requirement is to employ as instructors men who have been and who continue to be active in the field of insurance."

It should be remembered in this connection that Professor Danforth was speaking in the dual capacity of teacher and insurance company official under the caption of "A Property Insurance Executive Views Education for Insurance on the University Level," and that his statements pertained primarily to evening and extension students who are regularly employed by insurance companies. Actually, as has been noted in the summary of special or vocational type courses, most of the vocational courses that are of a training character are offered in evening or extension divisions and are not given for degree credit. The plan of the Life Insurance Marketing Institutes at Purdue University and Southern Methodist University differs in important respects as previously noted.

Generally speaking, insurance educators in the collegiate schools of business hold to the traditional concept but recognize the necessity for training. There is excellent reason to believe that they would subscribe to the statement made by Professor Loman and me at the 1947 meeting, in a paper entitled "College Education for Insurance: A Minimum Program,"

when we said:

"As indicated at the outset, the type of educational program here presented has as its objective the preparation of persons for various areas of business operations in insurance. But it cannot do the entire job and must therefore be supplemented by other training. The functions to be performed within this broad range mentioned will not be uniform — and the special training necessary to fit the individual to exercise all of those functions cannot be standardized. Moreover, even if those functions should be broken down into more or less related groups, a single training program would not wholly suffice. There would still be the need for gearing it to the operating procedures and special practices of particular companies.

"Colleges and universities are not prepared today to take over even that portion of this specialized training program for which there may be important common denominators. Assumption of this function may come in course of times just as it has in various professional schools, such as those for medicine, dentistry, law and teaching, where the school itself begins to effect the transition from "thinking" to "doing" before the student is finally placed on his own. Until the day comes when more specialized training is feasible, industry must assume the responsibility for handling the training process itself. However, the greater the extent to which industry and education comprehend the nature of their joint problem in providing adequate preparation, recognize the respective part which each should play in the entire process, and coordinate their respective activities, the more economical, efficient and generally satisfactory is the result likely to be. One of the aims of this paper is to help in furthering cooperative endeavors in these directions." [12]

This latter problem is one to which our Association has given much consideration in recent years by encouraging directors of training to enroll as associate members, by devoting time at annual meetings to exploration of mutual aims and difficulties, and by activities of various commitees.

Other Problems

Many other problems have engaged the thought and discussion of insurance teachers over the years, although different schools of thought with respect to them can hardly be discerned. They have had to do primarily with the content of advanced courses; teaching methods; effective use of policy forms, manuals, and other teaching aids; textbooks; coordination of social insurance and private insurance; integration of insurance with the general educational program in a collegiate school of business; the gearing of curricula to preparation of students for professional examinations in insurance; and the ways in which colleges and

[12] Journal of the American Association of University Teachers of Insurance, 1947.

universities can cooperate effectively coordinating their educational services to foster the development of high quality career personnel.

IN CONCLUSION

Some might be tempted in presenting a paper such as this to make predictions for the future. However, I have neither a crystal ball nor a desire to assume the role of prophet. But I do believe that the trends and tendencies to which I have referrd will doubtless continue to wield their influence through the coming years as I have always been a strong believer in the sentiment voiced by the poet that "in today already walks tomorrow."

The British Health Experiment: The First Two Years of the National Health Insurance (N.H.I.)

Seymour E. Harris, Harvard University

Introduction

On November 6, 1946, the British Government enacted the National Health Service Act; and on July 5, 1948, the Act came into force. It is probably no exaggeration to say that no recent legislation and administration in Great Britain has arounsed as much interest in this country as the so-called "socialized" medicine of Great Britain.

Covering 92 pages and about 35,000 words, the Act is a complicated law.[2] It follows in a general way the recommendations of the Beveridge Report of 1942: " . . . a comprehensive national health service will ensure for every citizen that there is available whatever medical treatment he requires, in whatever form he requires it, domiciliary or institutional, general, specialist or consultant, and will ensure also the provision of dental, ophthalmic and surgical appliances, nursery and midwifery and rehabilitation after accidents."[3]

"The aim of National Health Service, which came into force on 5th July, 1948, is to make all the health service available to every man, woman and child of the population, irrespective of their age, or where they live, or how much money they have; and to make the total cost of the service a charge on the national income, in the same way as the Defense Services and other national necessities."[4]

Whereas in the past the charge for services protected the physicians and hospitals from many who did not need the services, now the availability of service without extra payment increased demands of those without strong claims.

In presenting the paper, I shall concentrate primarily on those aspects of the problems upon which an economist can throw some light.

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1. I am greatly indebted to Mrs. Daniel Cheever for research help with this paper.

2. *National Health Service Act. 1946. 9 and 10 Geo. 6, Ch. 81.*

3. *Special Insurance and Allied Services Report by Sir William Beveridge.* The Macmillan Company, 1942, pp. 158-163.

4. H.M.S. Office. *The National Health Service,* 1948, p. 2.

On purely medical issues, I shall have to depend upon statements published in the **British Medical Association Journal**, in **The Lancet**, a report by a Committee of the A.M.A., reports by the British Government, and son on.

Direction of Increase of Costs

The table below shows the largest increases have occurred in special categories. Whereas in relation to estimated costs in 1948-49, these special services required 11 per cent of the health costs, in 1949-50 they absorbed almost one quarter. But general practitioners' services absorbed but 15.8 per cent in 1948-49 (estimate) and 10.5 per cent in 1949-50. The respective figures for hospital services were 57.4 and 51.7 per cent of total costs. In fact, the rise for ophthalmic services was from 3 to 26 million £ sterling and for dental services from 10.8 to 48.6 millions.

The direction of the rise of outlays is one explanation of the complaints of the practitioners. Although the general view is that the income of the practitioner has greatly increased (though not per unit of services), it is clear that the practitioners have lost ground relatively. They complain bitterly of the failure of their incomes to respond to the increases of the cost of living since 1939, and of the large work load relative to the rise in income.[5]

Medical Costs in the United Kingdom under N.H.I., 1948-49 and 1949-50

	(£ Million)			
	Original Estimate, 1948-49	Revised Estimate, 1948-49	Original Estimate, 1949-50	Revised Estimate, 1949-50
Pharmaceutical services	16.9	23.6	20.8	35.3
Dental Services	10.8	29.1	30.9	48.6
Ophthalmic services	3.1	20.0	14.7	25.1
Total	30.8	72.7	66.4	109.0
% gross cost of National Health Service	11.6	19.8	18.9	24.2
General practitioner service ..	42.0	45.1	45.8	47.1
% of gross costs	15.8	12.3	13.0	10.5
Hospital maintenance expenditure	153.1	180.4	184.8	232.6
% of gross costs	57.4	49.0	52.4	51.7

Source: **British Medical Journal**, March 18, 1950, pp. 664-666.

The above table suggests a weakness in the National Health program, for the general practitioner seems to be receiving less favored treatment. But, as we shall observe later, the heavy concentration on special services may be only a temporary phase.

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5. *British Medical Journal*, March 25, 1950, pp. 709-12, *London Economist (L. E.)*, July 8, 1950 p. 67; *The Lancet*, November 26, 1949, pp. 995-96.

A comparison with the pattern of medical outlays in the United States reflects the current pressures on British practitioners. In the United States in 1949, private outlays on physicians amounted to $2,267 million and on dentists, $931 million.[6] Against roughly equal outlays in the United Kingdom, the physicians in the United States received 2½ times as much as dentists, and the physician received a much larger part of total medical outlays than in the United Kingdom (even with allowance for public outlays here). These figures are not entirely comparable, because the British figures exclude the specialist and also because of the peculiar demands on the special services in the early stages of the program.

A comparison of incomes of physicians in the United Kingdom and the United States may also be helpful. In 1947, the net income of the physicians in the United States was $9,889.[7] At present the figure is probably closer to $11,000. This figure might be compared with about $5,000 for the British physician.

The net income of the British physician is really not far out of line with general incomes. It will be recalled that the per capita income of the British population in dollars is roughly about three-fourths that of the United States, and the pay levels in British manufacturing even less relatively. In 1949 manufacturing wages in the United Kingdom averaged $24 and in the United States, $55 weekly.[9] Hence, although the British physician's income (and notably the practitioner's) has not risen with the increased number of £ sterling going into medicine, nor in proportion to the amount of additional work, his income relative to that of the factory worker is higher in the United Kingdom than the physician's income in the United States relative to the income of the factory worker. But the British physicians' income is somewhat less relative to per capita income vis-a-vis this relationship in the United States.

Finally, we should note one other aspect of British costs. The rise of hospital charges has been large. From pre-war to 1947, the increase of

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6. *Income Number, Survey of Current Business (S.C.B.)*, July 1950, p 24.

7. *Medical Economics*, September 1, 1948, pp. 60-61.

8. American Medical Association (A.M.A.), *Medical Care in England under the National Health* Service, pp. 28-31. I have used the statistics presented here, but have arrived at a higher net income of British physicians. (The second correction below tends to reduce British income.) First, I have made some allowance for specialists' income. Second, I have estimated gross income at 16d per patient, not £1 as the A.M.A. Committee did (and wrongly), and third, I have converted sterling at £1 - $4, not £ - $2.80. The former seems the appropriate figure, since in 1949 prices and incomes had not responded substantially to the new exchange rates.

9. *National Income and Expenditures of the U. K., 1946 to 1949*, p. 13, and *Mid-Year Economic Report of the President*, July, 1950, p. 125.

weekly costs for 159 voluntary hospitals was from £3 19s. 7d. to £11 4s. 0d., or a rise of about 180 per cent. The explanation is held to be mainly large increases in salaries and better service to each patient.[10]

This increase should be compared with one of but 80 per cent for all hospital rates in the United States.[11] The rise of hospital costs exceeded that in the cost of living in the United Kingdom by 75 per cent, in the United States, by only 14 per cent.

The Costs

Undoubtedly, the costs of national health insurance have been high, and the amounts expanded have increase beyond the estimates:

Costs of Health Service, 1946 to 1949-50

(£ Million)

	Estimate, 1946	Original Estimate, 1948-49	Final Estimate, 1948-49	Estimate, 1949-50
Total	167	265	368	352
Deduct contributions from National Insurance Fund, etc.	41	65	90	92
Cost to taxpayer	128	200*	278	260*

* The official statement puts the cost to the taxpayer at £145 million in 1948-49 and £249 million in 1949-50. **Financial Statement** (1949-50) of April 6, 1949, p. 12.

Source: The practitioner: **The National Health Service Act in Great Britain,** London, 1950.

In his budget speech of April, 1950, the Chancellor of the Exchequer, commented on the large increase of expenditures for National Health Insurance; and the Chancellor reminded the House of Commons that the increase of £133 million (over the £260 million estimate) would not be repeated.

"It is clear that it is not possible under existing circumstances to permit any over-all increase in the expenditures on the Health Services. Any expansion in one part of the services must in the future be met by economies, or if necessary, by contractions in others."[12]

The final estimate of costs for 1949-50 was £359 million and the original estimate for 1950-51 was £393 million.[13]

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10. L.E., November 20, 1948, p. 827.
11. F. S. Dickinson, *The Cost and Quantity of Medical Care in the United States.* Bulletin 66, A.M.A., 2nd Printing, 1948, p. 14.
12. *Parliamentary Debates* (Hansard) Vol. 479, No. 28, April 19, 1950, p. 39.
13. L.E., March 11, 1950, pp. 620-21

The Significance of These Costs

No one will gainsay the fact that national health services involving outlays of close to £400 million is a costly program in Great Britain, and that the costs have far exceeded the estimated amounts. The Beveridge program for social security from the cradle to the grave was to cost only £697 million in 1945 and £858 million in 1965, with net charges on the exchequer to be 351 and 519 million £ sterling, respectively. For health services, Beverdige estimated total outlays in each of these two years at £170 million.[14]

Are there any alleviations? There are. First, a large part of the excess over estimated outlays stem from outlays that may not be repeated in as large amounts. For example, the backlog of neglected teeth, of uncorrected vision, of neglect of hospitals account for a substantial part of the unexpected outlays.[15] On the other hand, the construction of 2,400 health centers, an important item in the government's plan, is still far off. Quite recently, only three centers were under construction, with the first apparently to cost £150,000. At this rate, 2,400 would cost about £350 million.[16]

Second, though the amounts involved are large, they far from represent a net loss to the community. Indeed, the amounts, included in the Treasury Budget are substantial compared to less than £130 million involved annually under the former government health insurance program,, but a large part of the current outlays were spent previously under private auspices. Now very little is spent under private auspices.

Third, the money used for medical services is obtained partly from insurance contributions and partly from general taxation. These are transfer payments which involve real costs to the nation only insofar as resources that would otherwise have been used more productively are now transferred to medical services. It is clear that increased utilization of medical personnel and facilities account for a large part of the additional service (e. g., the crowded offices of doctors and the strain in out-patient deparements of hospitals), and that another large part of the costs is at the expense of all kinds of commodities and services which would have been produced had taxes not been increased to cover the cost of health services.

In part, however, the increased medical services are at the expense of other goods and services badly needed for the economy. For example, from 1949 to 1951 the number of women aged 15 to 40 will have fallen by 374,000. Yet the medical program requires an annual recruitment of 15,000 trained

14. *Op. cit.*, p. 209.

15. L.E., June 18, 1949, p. 1130, October 29, 1949, p. 934.

16. "Medical Care in England under the National Health Service," pp. 22-23.

nurses and 2,000 qualified midwives.[17] The diversion of more resources in the pharmaceutical business and medical appliance must also be largely at the expense of other commodities and services needed for domestic consumption or investment or for export.

Fourth, as the welfare state expands its functions, the costs more and more are borne by the beneficiaries. In other words, qua taxpayer the insured pay for their medical services, and less and less do these payments become a burden on business and industry.[18]

It is a fact that the low income groups have improved their position. Thus, according to one estimate, from 1938 to 1949 the per capita consumption of the working class rose by 17 per cent, that of the middle class declined by 18 per cent, and that of the wealthy by 42 per cent. The explanation is not, however, primarily transfers from rich to poor but rather the gains from higher employment and productivity, which benefit especially the working class. Against gains of £110 million in personal income transfers and £212 million in subsidies since 1938, the direct taxes on working classes increased by £139 million and in indirect taxation by £371 million. That is to say, their increases in taxes have exceeded their transfers and subsidies. Of course, part of the £510 million is the contribution of the workers to the cost of the war. Insofar as this is not an adequate contribution to the war costs, then it may be held that other classes subsidize the workers' welfare programs. The working classes pay much heavier taxes on alcoholic beverages, tobacco and luxuries generally (all indirect taxes are up from £412 million to £1,675 million) and the government uses part of the proceeds to finance the welfare state inclusive of health services.[19]

Can the British Afford These Large Outlays?

Obviously a country that faces serious balance of payments problems and labors under inflationary pressures must watch its outlays for social services. In a fully employed economy, increased outlays for social services tend to increase pressure on limited resources and hence to raise prices, and also to use up resources that might go into export products to be subsituted for imports. Preparations for war are an added reason for caution. Higher prices and diversion of labor, capital and materials into medicine contribute toward increased imports and reduced exports and hence to dollar shortage. Expenditures on health are especially

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17. *The Practioner, op. cit.*, pp. 100-1.

18. Medical Journals, for example, tend to exaggerate the burden on industry and fail to note that the charge is largely on the beneficiaries. *British Medical Journal*, March 18, 1950, pp. 664-66. *The Lancet*, September 24, 1949, p. 799.

19. F. Weaver, "Taxation and Redistribution in the United Kingdom," *Review of Economics and Statistics*, August, 1950, pp. 212-13; and United Kingdom, *National Income and Expenditures of the United Kingdom*, 1946 to 1949, Cmd. 7933, pp. 34-35.

relevant here, since the largest increases are to be found here. In 1948, expenditures of the central government were £2,760 million; in 1950-51 (estimated), £2,918 million.[20] This rise of £158 million is to be compared with an increase of public outlays on health services of about £300 million.

Here again, we may be exaggerating the strain put upon the economy by the health program. First, because as already suggested, the additional costs are financed by taxation and primarily by taxation on the beneficiaries. Second, because the British Government's fiscal activities on the current basis at any rate have been anti-inflationary: in 1948, and 1949, the British Government spent 2,760 and 3,026 million £ sterling, but revenues exceeded expenditures by 369 and 318 million £ sterling. An excess of receipts tends to reduce the total amounts of spending. For 1950-51, the Chancellor estimates the true revenue surplus at £411 million.

Should allowance be made for capital outlays of the central government, however, then outlays exceed receipts and the central government puts out more funds than received from revenue.[21]

Only in this sense may the added outlays for health be considered inflationary, conceivably the government might have increased taxes (and on the masses) and yet not have provided the social services.

The Burden of Health Services in the United Kingdom and the United States

Really satisfactory figures for comparison are not available. But here I compare private outlays for medical and death expenses in the United States with outlays for National Health Services in the United Kingdom (1950). By estimating the latter at £400 million, I inflate the latter total to include the small private outlays.

A Comparison of Relative Cost of Health Services in the United Kingdom (1950) and the United States (1949)

	Total Expenditures $ Million*	Health Expenditures as % of Total Consumption Expenditures	Expenditures as % of Personal Income	Per Capita Income	Per Capita Health Expense	Per Capita Medical Expense as % of Per Capita Income
United Kingdom	1,600	4.5	3.7	856	32	3.7
United States	9,000	5.0	4.4	1,373	60	4.4

Source: U. K. Expenditures, Income, etc., from **National Income and Expenditures of the U. K.**, 1946 to 1949; and U. S. from **Survey of Current Business**, National Income Number, July, 1950.

* Converted at $4-£1 (since price and income adjustments to depreciate have not yet been made)

20. *Ibid.* 1946-1949, p. 35; and *Parliamentary Debates*, April 18, 1950, p. 57.
21. *Ibid.* pp. 34-37.

The reader will observe that relative to consumption expenditures, to income, or to per capita income, the cost of health service is somewhat higher in the United States than in Great Britain. The per capita medical costs in this country exceed those in the United Kingdom by more than our per capita income exceeds that by the United Kingdom. Should allowance be made for the more than $2 billion spent for health out of public funds in this country, then the advantage of the United States would seem even greater,[22]

Quantity vs. Quality

In their appraisal of N.H.I., the medical profession has been especially critical of the quality of medical care given under N.H.I. Thus a committee of the A.M.A. concluded:

" . . . The center of gravity of medicine has shifted, and emphasis is on numbers rather than on service. A physician can on longer gain recognition by rendering better service and thus secure a financial reward on a paying private practice. If he is to survive financially, he must gain in numbers at the sacrifice of quality of service . . . There is evidence that in some instances the quality of the work is beginning to suffer . . . The statement is based on personal observation of limited and crowded space for examination, inadequate histories and clinical observations and the testimony of administrators . . . [23]

A writer in the **Practitioner** concludes: "There is no evidence that the health of the nation has benefited from the first year of the National Health Service . . . If politics can be subjugated to the principles of the Hipprocratic oath, there are good grounds for believing that out of the present chaos there will come forth a medical service of which the country can be justly proud."[24]

But a distinguished American physician, in a judicious survey of the British experiment, summarized the British service as follows: "I am unable to assert that the general standard is higher under the National Health Act than it was before that went into effect, but, on the other hand, I have encountered no convincing evidence that it is lower, and certainly more people get it."[25]

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22. *The Nation's Health. A Report to the President by Oscar R. Ewing*, 1948, p. 30.

23. *Medical Care in England under the National Health Service*, pp. 19, 43.

24. *The Practitioner*, p. 16.

25. J.H. Means, "England's Public Medicine: The Facts," *Atlantic Monthly*, March 1950, p. 56. Also, see Dr. W. C. Rappalaye's objective study; he concludes that the program is operating reasonably well. *The National Health Service of Great Britain*, Nov. 1949, p. 32.

Aside from views of medical experts, the net results of British N.H.I. is bound to be greater emphasis on quantity than on quality. Widespread use of medical facilities is after all the objective of the program: **Medical service for all.** The wider distribution of medical services means that the poor can now increase their dental care, obtain eye glasses, profit more from the help of specialists, and satisfy their psychological craving for medicine. The long queues at the "surgeries," the delays of 18-24 months to get a tonsilectomy, the interminable delays and slipshod work for dental treatment (dentists frequently close lists for three months), a waiting list of 7,600 in one hospial with 40 patients there over 100 days, a waiting period of six months for glasses, the frequent treatment of less needy cases, a tendency to discourage patients requiring much time, e. g., the very young and old — all these point to the pressure of "free" medicine on limited resources. With the physicians overworked, they necessarily cut the time of each visit and in general deteriorate their product.[26] As many have observed, the physician tends to depend less on history, clinical observations and the like and more on snap judgment and medical prescriptions.

Against any deterioration of quality, we must put the gains of better distribution of medical resources. The philosophy of the N.H.I. Act is medical service according to need, not according to means. "The new arrangements confer a great benefit on medicine by lessening the commercial element in its practice. The money barrier protected the doctor against those who didn't need his help but also separated him from those who did."[27]

Against the current deterioration (**and it would be a mistake to overstate any decline in quality; for there is much evidence from medical experts that the deterioration has not been serious**), we must also consider the possibility of expansiin of facilities and better distribution of both facilities and personnel. It is possible to have both high quality and more medical services. But this will take time especially in a fully employed and semi-war economy. It may well be that the Labor Government should have introduced its health program more gradually, awaiting the expansion of scarce resources. Had the government, for example, at first restricted demands by a small charge and put greater limitations on the use of scarce resources (e. g., prosthetics), then any sudden decline of incentive and standards might have been avoided. Unfortunately, this is a political rather than an economic or medical problem.

I should emphasize the fact that any quantitative gains already made are not merely at the expense of quality. First, the N.H.I. program facilitated a more intensive use of existing capacities. The additional service comes partly out of unemployed resources. Second, with the increased

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26. See, for example, *The Practitioner*, pp. 108, 48; A.M.A., *op. cit.*, pp. 16, 34-37; *L.E.* August 14, 1948, p. 269.

27. *The Lancet*. July 3, 1948. p. 17.

stimulus of additional outlays for medicine, additional resources are diverte to the medical field. In some measure, these resources become available almost immediately — e. g., imports of chemical supplies and influx of pharmacist assistants: in some measure, the influx will take time — e. g., the training of nurses, physicians, and specialists.

Third, some "wastages" are eliminated. For example, luxury medicine is on the way out. With 95 per cent of the physicians, 90 per cent of the dentists and almost 100 per cent of the chemists enrolled in the National scheme even in the latter part of 1949,[28] and with the government largely pre-empting private facilities in the hospitals and making private use expensive, the result is greater availability of resources previously used in luxury medicine for the use of masses of the population.

Fourth, as the medical services are better integrated and especially as the health centers are put into operation, the service should profit greatly from increased economies of scale, i. e., lower costs per unit of operation.

Fifth, monopsonistic buying on the part of the government which will eliminate unnecessary selling and advertising expenses and cut down private mark-up, and careful listing of medicines and drugs available under the scheme — these should make the medical dollar go further.

The argument so far has been that the increased quantity of medical care is far from being merely at the expense of quality, and as resources more nearly equal to the requirements under N.H.I. that maintenance of quality and even improvement might be quite consistent with much better distribution and greater recourse to medical facilities. But there is another side to the problems raised by a national insurance scheme. The system of payment used may well involve the economy in wasteful outlays.

Wastage?

Under N.H.I. the insured are entitled to various medical services and supplies. Since they can obtain those without payment of any additional sum (other than contributions under the insurance scheme), the temptation is to demand services in excess of need. European experience with health insurance affirms that there is a tendency for patients to use services excessively.

In some European programs, the insured are required to make a small payment in order to encourage economical use of facilities. The British scheme now includes a provision allowing the administration to impose a charge for any chemicals (drugs) purchased. So far apparently this provision has not been put into effect. Many authorities in the United Kingdom have demanded that a payment be made for every visit to a physician, for every stay at a hospital, for each treatment of the dentist, etc.[29]

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28. *Ibid.* September 29, 1949, p. 573.

29. *L.E.*, October 29, p. 954 *British Medical Journal*, March 18, 1950, pp. 664-66.

Undoubtedly a charge, say, 50 cents, for each visit at the doctor's office. or $1 per day for hospital service would deter wasteful use of services. Unfortunately, it would also discourage early and necessary treatment. Hence the wastes must be weighed against losses resulting from failure to obtain services.

Again, the British system is wasteful in still another way. The method of payment of the members of the health profession is not one which encourages the most effective use of the medical dollar. Thus, the practitioner is paid on a capitation basis, with a limit of 4,000 patients per physican without assistance. Since the average number of insured per physician is about 2,200, the result is that many physicians tend to enlist too many patients, and many are excessively idle. The capitation system stimulates the physician to seek patients and tends to distribute the load unevenly, and it also puts a premium on hasty diagnosis and treatment. A salary method of payment would probably result in a better distribution of work, for with a fixed payment, the patients would be more evenly allocated among doctors. The capitation system, however. has a much greater appeal to the physician and the B.M.A. than a fixed income payment.

Specialists are paid largely according to experience and time put in. Here the income method of payment rather than capitation fee is in vogue. but the system offers incentive in that beyond a certain point, only merit rises (three classes) are provided. The net effect of the government's program has been greater rewards for young specialists and smaller rewards for the older, and especially for the outstanding, specialists. The net result may well be some economies in the total cost of specialism, a better distribution of the payments to specialists, and apparently at least in the beginning, greater relative rewards to specialists than to general practitioners.[30]

Perhaps the least satisfactory and most wasteful system of payments relate to dentists. Here the fee system is used: x dollars for each treatment. The dentists may conserve teeth without special permission; but if, for example, he wishes to remove teeth and replace with artificial teeth, he must obtain permission. The important point is, however, that where the interests of dentist and patient are one — namely more income and more work, the result is high costs to the program. In the first two years of the British program, dentists' incomes have risen way above those of practitioners; and despite two cuts in payments for service incomes are still high.[31] New Zealand's experience with the fee system should have been a warning to the British. Under-estimates of services likely to be demanded of dentists resulted in excessive fees for services and excessive incomes for dentists.

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30. Cf. *L.E.*, June 12, 1948, pp. 962-63, and December 25, 1948, pp. 1054-55: and A.M.A., *op cit.*, pp. 13-14: C. W. Rappalaye *op. cit.*, p. 32.
31. See *L.E.*, May 28, 1949, p. 980, December 11, 1948, p. 962; and *The Practitioner*. pp. 55-56.

Prevention of excessive funds going into dentistry and other abuses is a particularly difficult problem. First, because of the backlog, second, because if the difficulty if using a capacitation system; and, third, because of the difficulty of preventing abuses in the fee system; and, fourth, with the great shortage of facilities, the tendency to concentrate on the most profitable work (e. g., adults) and to reduce the quality of services.

The difficulties raised by prior checks on costly operations are suggested by the following:

". . . For example, there have been cases of estimates submitted for putting a jacket crown on a healthy root-filled incisor tooth which has in the past had an apiceotomy successfully completed. The Board has insisted that the root of the tooth should be opened up, with a consequent risk of its reinfection, so that the cheaper type of post crown can be used, rather than allow the dentist to make the more expensive jacket crown."[32]

More Money for Health

One effect of N.H.I. is to channel more money into medicine. By virtue of its taxing power, the government forces the nation to spend more on medicine and less on other consumption goods or possibly on investment.

For example, below I present the consumption expenditures and prices of various categories of consumers' goods and services. The reader will note that the more favorable increase of consumption outlays for other services (includes medicine) and the relatively low prices for other services:

Consumption Expenditures and Prices, United Kingdom, 1948, Total and Various Classes

	(1938-100)	
	Expenditures	**Prices**
Tobacco	112	388
Alcoholic drinks	93	288
Durable household goods	79	236
Private motoring	35	180
Domestic services	37	218
Other services	120	154
All	104	182

Source: **National Income and Expenditures of the United Kingdom**, 1946 to 1949, Cmd. 7933, p. 32.

It is clear that large rises of prices in relatively non-essential areas of consumption have tended to reduce consumption of these non-essentials. When prices have risen greatly and consumption has increased or has

32. *The Lancet*, p. 58

been maintained remarkably well, the explanation is inclastic (insistent) demand. The rise in prices in these sectors of the economy stems largely from tax policy. For example, the increase of consumption for tobacco was 12 per cent; of prices, 288 per cent, but the rise of prices after allowing for the increase of taxes was but 60 per cent. From 1938 to 1948, tobacco taxes rose from £84 million to £610 million; and all indirect taxes (consumption) rose from £876 to £3,719 million sterling, or from 47 to 45 per cent of all tax receipts — a proportion much higher than in this country.

All of this suggests that the British Government by a conscious tax and, to some extent, price policy has tended to discourage the consumption of tobacco, alcohol, durable consumers' goods, etc., and use part of the receipts to stimulate the outlay on medicine.

Here is perhaps the crucial issue of medical economics. The British people support a government which through its taxing and pricing policies drastically modifies the consumption pattern. As **The Lancet**, in response to critics of this country, puts it, the British people prefer shabby clothes plus adequate health service to inadequate medical outlays and better clothes. "The Labor Government forces the people to pay much more for tobacco and alcohol, for example (partly in the form of higher taxes), and thus discourage consumption of these products and many other semi-luxury products which would have been purchased with the tax money. The receipts are used to keep down the price of food and finance medicine and other security programs.

Few will dispute the fact that the diversion of spending from alcohol, tobacco, radio, ect., to medicine brings an improved pattern of spending. But many in this country will not approve governmental intervention in the field of consumption. Of course, even in our country the government exercises similar compulsions in outlays for education and even to some extent for health.

Summary and Conclusions

The new British Health Insurance Program has now been in operation more than two years. Physicians both in Great Britain and in this country seem divided on the issue of the successful outcome. At least this much is clear:

1. The effect of N.H.I. is to channel additional money and resources into the health services.

2. Through appropriate tax and pricing policies, the government

modifies the spending pattern in favor of medicine (and other social services) and against outlays for tobacco, alcohol, clothing, durable consumers' goods and other commodities.

3. Additional medical service is not merely at the expense of more production or more desired goods and services. First, because more intensive use is made of existing facilities and personnel. Second, because diversions are made from luxury medicine. Third, because in part the consumption of less necessary goods is foregone. Fourth, because better health means less illness and higher output.

4. The pattern of spending the medical £ sterling has greatly changed under N.H.I. The explanation of this fact lies partly in the intensive use of services previously denied the masses — e. g., dental service (only 7 per cent availed themselves of this service under the previous insurance program and almost one-half in a recent year). But in part the changes stem from the abuses that develop under the system — e. g., excessive prescriptions, and in part, the method of payment — designed to increase outlays on hospital and specialist services.

5. It is not clear that the most effective system of payments has as yet been evolved. The objectives are the maintenance of required incentives, economics of total outlays, relative payments consistent with the required distribuion of man-power, and the absence of obstacles to effective use by the insured. On these criteria, the practitioners probably require somewhat larger rewards; the dentists less; and the practitioners with small lists, higher per capita rewards for the first 1,000 (and related higher rewards in outlying areas). Possibly, a small charge for some services may be necessary to discourage waste. But this should be a measure of least resort.

6. There is no convincing evidence that the British cannot afford the £400 million sterling being spent on health services. In relation to income, total and per capita, the outlays are less than in the United States. As a contribution towards inflationary pressure, the importance of health services has been greatly over-estimated — and especially by physicians. The government for several years has been operating on a budgtary surplus; and the wherewithal to finance the special services has come largely from the beneficiaries. Higher taxes on consumption goods and on income paid primarily by the masses finance the increased services received.

7. British health insurance necessarily stresses quantity, not quality. The objective was to make medicine available to all, not to a limited number. Perhaps the most tenable criticism to be made against the N.H.I. was the introduction of comprehensive services before some of the necessary facilities were available. It might have been preferable to postpone some services or maintain small charges until dentists, nurses, hospitals, prosthetics, etc., were available in larger quantities. The deterioration in quality need, however, be only temporary.

8. Perhaps the most frequent complaint made against N.H.I. is that the general practitioner has lost position and financial status. This de-

terioration is partly the result of large demands on other medical services; but it is also the result of the pressure resuling from the availability of practitioner's service without financial check. The physician earns more but not nearly in proportion to the additional work; and the specialist and the dentist have gained at his expense. Note, however, that in comparison with the factory worker, the British physician earns four times as much; in the United States, the proportion between earnings of physicians and factory workers is about the same. In the rate of pay for service, in the degree of association with hospitals, and continuance of some specialist work, the practitioner can rightly expect some improvement.

9. As the program continues, we may expect much improvement: Education of the people concerning rights and duties; satisfaction of backlog demands; improved distribution of physicians in response to differential rewards (e. g., higher pay), in areas of shortages, and control of entry; more careful scrutiny of prescriptions; improved structure of pay for dentists, practitioners, and specialists; growth of health centers, with their improved services and economies of operation; increase of medical personnel — all of these will help.

10. Finally, the British experience is one that all interested in compulsory health insurance will watch. The British have moved quicker than this country, in part because the philsophy of the Welfare State is more generally acceptable in the United Kingdom and in part because with much lower incomes, the need for an improved consumption pattern is much greater. Perhaps the most significant British mistake from which we might profit has been the introduction of comprehensive N.H.I. before the required facilities were available.

Alternate solutions: Voluntary and Compulsory Medical Care Insurance

by

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The sweep of the topic assigned to me, together with the time allowance, pretty much predetermines the shape and the level of this paper. To be able to cover the topic at all, the treatment will need to be qualitative or analytical, rather than statistical or historical, though either of the last would present fewer difficulties. The qualitative approach in turn creates its own difficulties, and particularly with a topic as controversial as that of medical care financial policy. It is precisely in an area like this indeed that facts are scarcest. Not only are facts scarce, they are often unreliable and usually susceptible of more than one interpretation. For example, **how much** voluntary insurance have we in the United States against the medical care bill? (This paper does not include discussion of insurance against loss of wages resulting from sickness.)

Facts, it is true, as we ordinarily use that term, are of comparatively small importance in decision on issues such as those involved here, but this only increases our difficulties. Decisions are essentially political — political in the best meaning of that expression — the registered judgment of an active articulate majority of citizens. In coming to this judgement the essential question is not, how much private insurance protection is there available to meet the medical care hazard, but these that are much more complex and important: how adequate, how secure, how generally acceptable to the citizen is existing voluntary protection? Decisions on these questions depend not so much on facts as on the postulates or assumptions that each of us begins with and that so largely predetermine our conclusions. We could not of course hope to agree unanimously on these assumptions, even if we had 30 days rather than 30 minutes to discuss them. All the more reason that they be clearly stated. It is understood that every man will, and in a free society must, examine these assumptions. The purpose of stating them here is to make sure that while on matters as vital and complex as these unanimous conclusions are impossible, we shall at least not be working from unstated or partially stated postulates.

The assumptions that follow seem basic[1] in determination of medi-

1. For a more comprehensive list of assumptions including these, see C. A. Kulp, *Standards for Balanced Social Security Policy*, First Annual Insurance Institute, University of Nebraska, November 17, 1950.

cal care insurance policy. To this group these assumptions—except perhaps the second — may seem truisms; for the present purpose it is not necessary that we agree on them as long as they are clearly understood.

THE ASSUMPTIONS

Assumption 1. American citizenship is one of obligations as well as rights and privileges. The corollary to this is that the time is past — if indeed it ever was — that our citizens could be divided into two permanent camps of those who have and pay and those who have not and receive.

Assumption 2. It is much more likely that the average American under existing medical care financial arrangements will soon or late be faced with unpaid medical bills or unmet medical needs than he will not. I assume, that is, the Williamson concept of presumptive risk, which bases the case for compulsory insurance (though not in the same way or to the same extent as I shall later suggest), not on the shifting sands of the availability, adequacy and reliability of voluntary provision **at a particular time,** but, as the phrase implies, on a realistic acceptance of the situation of the average man over a life-time.[2]

Assumption 3. In making provision for financing medical care insurance the state — little s — should restrict itself to that part of the medical care bill for which the average man does not provide, and cannot be expected to provide for himself minimum and reliable protection. Williamson for example would include under compulsory insurance not all medical care costs but only those he classifies as catastrophic for the average citizen.

Assumption 4. American medical care insurance policy must, as far as this is consistent with the insurance idea itself, be suitable and congenial to the American temperament. It is as important to preserve and encourage our incentives to self-help as to provide medical care insurance.

Assumptions 3 and 4 lead to the corollary that, quite contrary to the inference to be drawn from the general title of this morning's session, the issue of medical care insurance in the United States is one that cannot be stated, or be soundly solved, in the too-simple terms of an alternative. It is not one of either all-compulsory or all-voluntary insurance. The issue is much more accurately expressed; I believe, in the title of my own paper; it is one of how much compulsory and how much voluntary provision; and in turn of how best to arrange the relations between the two. Discussion throughout will be in terms of the soundest place to draw the line between the province of compulsory and voluntary benefit programs, and the soundest ways to coordinate the two, whether provided by state or private insurance organizations. Compulsory medical care insurance may or may not mean state insurance,

2. W. R. Williamson, *Journal of Gerontology*, January 1946.

although the two are often found in combination. The Douglas catastrophe insurance proposal, for example, would join compulsory coverage with private insurance of the medical care risk. Under quite different conditions, with quite different motives, and with quite different results, both Germany and the United States have to a considerable extent distinguished the function of the state as prime mover from that of the insurer. Coverage and insurance issues are of course intimately related, and decision on either cannot be made without taking into account repercussions on the other, but for the sake of clarity and simplicity the discussion in this paper will center on compulsory vis a vis voluntary insurance and not on the kind of insurer that carries the risk.

Granted the second assumption, that of unmet need for the average man (and the collateral assumption of the importance of medical care for all citizens), the case for compulsion by the state is for the greatest part conceded. Questions at least as important however remain. Compulsory insurance for whom? Compulsory insurance at what level of benefit? Indeed, to a considerable degree, the answer to most Americans on the compulsory-voluntary insurance issue will as a practical matter be made, not on the naked question of compulsory insurance or no, but on compulsory insurance for whom, and how much?

THE SCOPE OF COMPULSORY INSURANCE

First, compulsory insurance for whom? For several reasons, it follows that if there is to be compulsory medical care insurance, it should be universal, covering all citizens or at least all employed and self-employed persons. This is partly because the concept of presumptive risk leads logically to the conclusion that since all citizens are exposed all citizens should have protection. If like the Europeans we finance the cost of compulsory medical care in part from taxes, there is an other powerful argument for universal coverage, that of equity. It is simply not fair that a part of our citizens should be taxed to help pay for benefits for others, which they themselves may need as badly as those who happen to be covered under insurance. If we are to have compulsory insurance of this hazard, the only sound coverage basis is that which assures all a minimum benefit to which all have contributed. The more fortunate will be able to supplement this with voluntary insurance; no one will receive less than the national minimum established by the compulsory system.

The answer to the question, how much, that is of the scope of compulsory benefits, and in turn of the field to be left to voluntary insurance, is more debatable. It depends on the extent to which we decide as a people that voluntary provision is reliable and adequate as well as available. In determining the extent to which voluntary provision can be counted on to cover medical care bills, the standards for testing reliability and availability should be high; for adequacy, low. Since despite state supervision for the fortunes of private insurance organizations (which by definition supply voluntary protection) cannot but vary over the decades (and this has been particularly true of those

specializing in this field), voluntary insurance does not qualify as a way to assure a national minimum benefit, even for those fortunate enough at one time or another to have this protection. Insurance is either secure or it is nothing. As assumption 2 implies, voluntary insurance also fails to meet the availability test. Like that for reliability it is a strict test, and to conclude that voluntary insurance can meet neither is to conclude only, that like all institutions, it has limits and that there are functions for which it is not perfectly suited. Last, because it is vital that we give every possible incentive to self-help and to voluntary insurance institutions — see assumptions 1 and 4 — the standard for judging voluntary benefit adequacy should be modest.

Judging by these standards the limitations of voluntary insurance as an exclusive program for meeting catastrophic medical bills are so great that compulsory insurance must be relied on to provide the national minimum. Compulsory insurance requires however supplementation by voluntary insurance. In what ways and to what extent the two programs can best be combined are the assential questions to be discussed in the rest of this paper.

HORIZONTAL DIVISIONS BETWEEN COMPULSORY AND VOLUNTARY INSURANCE

Some approaches to the problem of finding the right combination may be regarded as horizontal, others as vertical. First, horizontal. In social insurance, generally, it is agreed that benefits should be set at a level below that required to cover full loss. Where financing is shared by other than the insured this is particularly necessary. It is a logical corollary of acceptance of social insurance benefit as a national minimum. The horizontal limit on benefit may be applied as an upper limit in dollars per week. In cash benefit insurance paying for lost wages, for example, it is both necessary and practicable to preserve a margin between the claimant's usual wage and living standards and the benefit amount per week. It is necessary — this is entirely apart from financial reasons — because of the intimate connection between benefit level and the individual's incentive to get well and get back to work. It is practicable because such an upper limit on weekly benefit amount, the critical factor, permits and encourages provision of voluntary protection that will supplement the national minimum. Assuming that benefits are paid, as they should be paid, without limit on the number of weeks, compulsory insurance automatically covers catastrophic loss. The essential element of security lies essentially not in the benefit level but in the assurance to the claimant that the benefit will continue as long as he needs it.

The device we have been discussing is not generally suitable however for medical benefits. For at least three reasons a horizontal upper limit on compulsory medical care is not sound. If the limit is expressed as a maximum number of dollars per week or month,

it defeats the very purpose of the medical benefit; inevitably it centers attention on the price of the care and not on its adequacy and quality. We need look no further for proof on this point than to American experience with limited workmen's compensation medical benemits. If the limit is stated as a maximum dollar amount per claim this leaves the catastrophe hazard essentially unprotected and the claimant can be cut off precisely at the time of his greatest need. (It may be necessary sometimes, as Blue Cross experience with maternity claims show, to make such a limitation, because otherwise patients and their doctors may demand unnecessary and unnecessarily expensive services simply because they have been paid in advance; but this, all parties agree, is a regrettable and they hope temporary departure from insurance principle.) Also, if Blue Shield and other private insurers are admitted as statutory carriers of the compulsory risk (both foreign and American experience assures they will be) and if doctors providing care to persons insured under these plans are permitted to charge fees scaled to individual patient income, as is frequently the case today, a horizontal maximum could result in an arbitrary and unfair distribution of the costs of insured medical care. Inequities would be compounded if in addition doctors serving insured persons would take the position, as they have been known to do, that insurance ownership itself is a sign of comparative affluence to be considered by the doctor in fixing his fee. Under an arrangement such as this, the insured does not in fact have medical cost security. The catastrophe hazard remains on him. Finally, such a maximum on the compulsory benefit might leave too little scope for voluntary efforts, since private insurers could hardly be expected to interest themselves in insuring excess medical care costs. Up to now private insurers have not been interested in the catastrophe hazard; the single exception today writes only relatively well-to-do executive groups.

An advantage of the horizontal maximum is the ease with which it could be used with universal coverage. On balance its defects make it clearly unsuitable for American medical care insurance policy.

There is another, and I believe, a better way to place a horizontal limit on compulsory benefit: by excluding all but the most catastrophic medical care bills. One suggestion is to provide insurance only for diseases and disabilities agreed in advance to be catastrophic, listed in the law. Benefits would be exclusively in the form of provision of medical care, which would minimize the problem of fee-setting and the possibility of fee-padding inevitable in a program providing cash reimbursement of medical bills. The problems however of definition are so numerous, the subjective factor in medical diagnosis and prognosis so great and the chance of arbitrary decision among individual claimants so numerous that it could hardly be adopted.

A much sounder application of the horizontal approach would be some variety of reimbursement insurance applied to medical catastrophe. The definition of catastrophe would need be carefully thought out

but it could be made much more objective than one embodied in a schedule of diseases. In principle the dollar limit would be that amount per claim per benefit year that represents a loss of income so great as to result in major impact on savings, individual or family, or on living standards, as specifically defined in the statute. The Douglas proposal for example would cover the cost of medical care in excess of 5 per cent of income or $150 a year, whichever would be the smaller. A research study under way under the auspices of an American University defines catastrophe as that situation in which the individual or "the medical spending unit," a group of persons whose medical expenditures are paid from common funds, has expended 10 per cent or more of usual income for direct and indirect medical services during the year.

One enormous advantage of this variety of the horizontal approach is that it would cover completely the cost of catastrophic illness.

Paradoxical as it sounds at first blush, this approach, that seems distinguished by what it leaves out, is nevertheless quite consistent with the requirement that the compulsory medical care insurance system provide a national minimum. In medical care this minimum can be expassed most soundly, not as a modest sum of dollars a week, not as payment of the little bills that fritter away insurance funds but can and should be absorbed in the individual budget, but as complete protection, without dollar or time limit, against the personal and financial shock of medical catastrophe. Another advantage of this approach is that it would leave the rest of the field to commercial and other private insurers, whose interest to date has been, generally speaking, outside the area of catastrophic medical loss insurance. The catastrophe reimbursement benefit would consort logically also with a scheme of universal coverage. Finally, because it would provide not medical care as such but money to pay medical bills, it would interfere as little as possible with traditional doctor-patient relations. Assumption 4 requires a medical care insurance program for the United States that is acceptable to doctors as well as their patients. It would be naive of course to suggest that the introduction of compulsory coverage and financing of medical care could or should leave patterns of medical practice entirely untouched, and the doctors are right in their contention that the proponents of compulsory medical care insurance have greatly oversimplified when they insist that the only change involved in compulsory insurance is a change in the way of raising the money to provide benefits. Doctors too will have to give as well as get, and they particularly will have to reorient that traditional medical attitude toward all issues that touch doctors that is suggested by their approval of Blue Shield as "The Doctors' Plan." If the catastrophe reimbursement approach is to work, it is essential that as for the upper limit horizontal plan (though continuance would not be as serious) doctors surrender their traditional privilege of scaling fees on the basis of the patient's presumed ability to pay; otherwise much of the advantage of and reason for insurance would be dissipated.

VERTICAL DIVISIONS BETWEEN COMPULSORY AND VOLUNTARY INSURANCE

Several other possibilities remain: they represent the vertical approach to definition of the respective spheres of influence usual abroad. Broadly speaking, social insurance abroad has taken for its function protection of the working classes, leaving to private insurance the rest of the population; again broadly speaking, each program has been dominant in its own sphere. Over the decades the definiteness of the line between the two programs has become more and more blurred, primarily as a result of the slow trend to universal coverage, exemplified in the Beveridge program, partly as a result of the fact that European compulsory schemes have always in fact if not in principle left plenty leeway for voluntary insurance as a supplement to low benefits. The fact remains. The typical European medical care plan continues to divide vertically the field and function of the compulsory and voluntary insurance. Because it discourages and delays achievement of universal compulsory coverage and because implicit in it is the socially undesirable goal of providing complete compulsory protection for insured persons, Americans should and will avoid it. In that they both cover minor losses, in Europe both compulsory and voluntary programs attempt too much. At the same time both leave the average person unprotected against medical catastrophe.

Vertical division of function could also be arranged, it has been suggested, by programs differentiated by kind of medical service. It has been suggested, for example, that the provision of hospital care or of benefits covering the costs of hospitalized illness be made the function of compulsory insurance, leaving arrangements for other medical care and costs as they are today. This proposal, that would provide inter alia a variety of medical catastrophe benefit, would probably be the easiest of all to introduce in this country, since the doctors could be left partly or entirely to one side and the community hospitalization plans, already engaged in a semi-social function, are offering to serve as statutory hospitalization insurance carriers. The proposal has both advantages and limitations. Even if compulsory coverage for the hospitalization hazard were made universal from the start — it is very likely to be less than that — it would take us only partly along the road toward the ideal of a national minimum. It would provide no protection against non-hospitalized catastrophic illness. It could be arranged to cover the catastrophic costs of hospitalized illness but at the price of exaggerating present pressures on hospital staffs and facilities resulting from unnecessary hospitalization. Since the compulsory program would in all probability attempt to cover the whole need of the insured, except as individuals would continue to buy medical care outside compulsory insurance because of the real or fancied superiority of outside quality, the incentive to buy voluntary insurance as a supplement would be weak.

On balance, the argument seems to favor the catastrophe reimbursement type of compulsory medical care insurance.

A final observation. This discussion has been about the ways and means in which compulsory and voluntary insurance could be combined. But even had we an ideal answer for this, it would still be for the **medical insurance** problem, not for the many-sided and immensely more complex problem of financing **medical care.** Insurance, whatever its strengths, is after all a mechanism with a limited objective and a limited function: to pool the costs of medical care on a formal prepaid basis. It is a useful device but it is not magic. It does not of itself add one penny of income to meet the costs of medical care; indeed insurance requires additional expenditures to cover the cost of insurance administration. It is indeed so unsuitable as a device to handle the entire medical care problem that some would reject it entirely and turn to state-provided medical care on the current British model. In planning a medical care program for the United States construction of hospitals and related physical facilities, a more efficient and equitable allocation of these facilities, and the education and training of much additional medical and related personnel are all more important than medical care insurance. Even in principle insurance can contribute little toward these facilities; in fact they have contributed even less because insurance funds have usually not been sufficient to do more than finance cash and care benefits. In principle compulsory medical care insurance could be used to promote and encourage preventive medicine; in fact the world over compulsory insurance insitutions have restricted themselves almost exclusively to the far simpler task of providing benefits for those already ill.

A comprehensive medical care program must also include provision for the medically indigent. To the part of the program insurance as such has no contribution to make at all, although, at the risk of breaking down the dividing line between tax-supported medical care and medical care insurance, it would be possible to use medical care insurers as the agents of the state in distributing medical care to the indigent. This service function could very easily be combined with universal insurance of the catastrophe reimbursement type. The entire population including the medically idigent, (whose number would be minimized as a result of universal coverage) would be automatically protected for catastrophic medical loss, the state contributing the funds necessary to cover benefits for the latter. Medical costs less than catastrophic for the medically indigent could be covered as now, or these could also be provided on a fee-for-service basis by a statutory insurer at state expense.

Welfare Implications of Alternative Methods of Financing Medical Care

by

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I. Welfare Criteria.

A welfare analytsis of medical care should be integrated with welfare analysis of the economy as a whole. The medical industry is "different." But medical care competes with other industries for productive resources and for the consumer's dollar. We can not evaluate medicine in isolation. Thus, consumer expenditures for medical care provide no criterion by itself as to the soundness of our medical establishment. Nor may we assume that any action which will increase medical care is necessarily desirable from the standpoint of our over-all standard of living.

Familiar criteria for optimum welfare within the economy as a whole are:

1) Optium allocation of resources in terms of medical and non-medical employments.

2) Maximum efficiency in the utilization of medical resources.

A third, suggesting unique conditions in medicine, may be added:

3) Minimizing the financial burden on consumers, subject to the first two criteria.

In non-medical areas, our welfare analysis is tied to freedom of enterprise and consumer sovereignty. Except where we find immobilities or obvious wastes in a particular industry, we are inclined to accept the result of the automatic working of the market system there as representing a roughly optimal balance between technological barriers and consumer preferences. Butthis depends on some very special features of the forces acting in a typical market. Demand and supply in the medical industry differ significantly from the typical.

Demand: the money sums which consumers paw for the receipt of medical care do not represent consistent individual or group valuations of the benefits to them. These benefits are not strictly allocable to those required to pay. There is no tradition that each person shall pay fully for even whatever drect medical services he obtains.

Supply: because of the diffuse yet "total emergency" nature of the benefits and the expensiveness of rendering them, substantial segments of the industry are organized on a non-profit basis. Even activities

carried on for profit are suffused with eleemosynary concern for medical needs as opposed to money demand. In addition, medical ethics and collective concern for the quality of care, significantly modify free enterprise.

We must therefore re-cast the criteria give above to meet the uniqueness of the medical industry. I postulate giving particular emphasis to the following.

1) Theraputic medical care arises out of the desire to be rid of illness. Illness is generally undesirable and unpredictable. Prevention is clearly pereferable to cure; but so far prevention has had but limited success. modern emphasis in preventive medicine consists often in treating sernous illnesses early — i. e., efficient therapy.

2) Illnesses vary greatly in severity and with it — not exactly in one to one relationship — the extensiveness of medical care necessary. I submit that a useful qualitative distinction among illnesses be considered in terms of "serius" and "non-serious" conditions. A "non-serious," (or "trivial") condition is one involving only a slight personal or family adjustment by those stricken, and only minor "neighborhood effects." The family's desire for medical care for such conditions is comparable to — and indeed integrated with — its desire for new shoes or a television set. "Serious" conditions may involve an almost perfectly inelastic demand for medical care, important neighborhood effects, or both.

As far as allocating resources to medical and non-medical employments, guaranteeing at least enough resources to medicine to give good care to all those suffering serious illness promises greater total consumer satisfaction than any alternative allocation. In order that these resources actually be used to treat serious illnesses, subsidies may be necessary. Additional resources to medicine to care for "non-serious" conditions should — consistent with non-medical needs — be left to the workings of the market: attraction of resources by the subsidized money demand of those stricken.

On the basis of this priority criterion, it should be possible to classify most illness conditions into the "serious," "non-serious" categories. Extent of disability, contagiouuness, sequelae affecting national productivity or future disability; the inexpensiveness and greater effectiveness of early treatment — these considerations should help us in classifying.

Consumer tastes are relatively unimportant in medical care. Also, there is a high degree of uniqueness of input combinations representing the best treatment for specific conditions (with the exception of luxury elements at the fringe, the best cures; anything less often fails to do so). Therefore, when we ask to guarantee good medical care for at least all those afflicted with serious illnesses, we are implicitely specifying a minimum necessary bundle of medcial resources determinate within fairly narrow limits.

3) Efficient utilization of medical resources has two facets: minimizing the input cost of rendering a particular output bundle, and maximizing the output bundle for any input allocation ("bundle" has quality and quantity dimensions). While related, these two are not identical in medicine because they are subject to the policy decisions of different groups.

In medicine, we are not free to envisage saving resources by lowering the quality of care. Less than highest quality care often represents a total wate. So the problem involves obtaining efficiency without sacrificing quality.

As far as minimizing input costs, medical resources should be neither over- nor under-worked — a question basically of minimum average cost and maximum average productivitiy. For hospitals, this is complicated by dispersion of patient load over time. Such dispersion — under what might be expected as typical conditions — increases the total cost of caring for a given total patient load. Dispersion can be lessened by extending flexibility of accommodation, using scheduled waiting lists, etc.

As far as maximizing output bundles, the following are important: (1) incentives to personnel and facilities to evoke high quality care without wastes of over-treating; (2) advantages of specialization; (3) disadvantages of over-specialization.

This last refers to the danger of fragmenting medical care among dissociated specialized talents. We come increasingly to appreciate the importance of seeing the patient whole. The most notable movement in medical organization in this regard is group practice, which has the additional advantage of economizing expensive equipment and personnel.

II. Approach.

Bearing in mind these generalizations, the rest of the paper will discuss the following models:

A. Private Medicine — fee for service (no insurance)

B. Private Medcine — voluntary sickness insurance.

C. Private Medicine — compulsory sickness insurance

D. Socialized Medicine

In the first three models, I shall be dealing with the prevailing mixed patterns of organizing care by governmental, non-profit and proprietary groups and persons. In each model I shall be concerned with the financing of "general" medical care. I shall study each model in its hypothetical equilibrium state, in which we assume the implications of its peculair character will have been realized. Transition problems are assumed solved.

The method is obviously subjective, but I believe it to be superior to those involving historical comparisons alone.

III. Private Medicine — Fee for Service (No insurance).

Under private fee for service medicine, a consumer incurs medical charges only if and when he obtains medical services, the amount depending on the extensiveness of care. The kind and frequency of care desired will depend on the consumer's record of illness. But illnesses are generally unwanted and unpredictable; moreover, once stricken, he has little choice of effective treatments. His need for medical care is independent of his income.

When struck by serious illness, he is often willing to spend "almost anything" to be cured or appreciably aided. But because good medical care is expensive, the consumer, willing as he is to pay heavy sums, may actually be required to do just that. Not everybody, however, is so burdened. The great majority of families at every income level experience no serious illness in any year. Their annual medical charges are low, well below average. But the small minority with serious illness spend sums considerably higher than the average, amounting to large percentages of their incomes. Savings are depleted, debts incurred and many seek charity. The medical indigent population is a considerable one.

Another consequence is that consumers will tend to economize by seeking medical attention only when they think they are very ill. This discourages early diagnosis and treatment, and probably exacerbates both illness and expenses in the long run.

Why is medical care so expensive?

1) Fixed capital costs — the initial investment — for factors are very high. Hospital construction costs are heavy. Medical education is long, requires complicated equipment and talented detailer instruction. The student foregoes income throughout the whole duration. The education of doctors is the most expensive type of professional education.

2) No real economies of large scale are possible. The market is local, the services are personalized and elaborate. No mere concentration of resources offer great advantages.

3) No maginal cost pricing is employed. Because of significant factor indivisibilities, marginal costs may fall considerably short of average costs. But average cost pricing, with or without markup, and with or without price discrimination, is preponderant. Besides, marginal cost pricing is inappropriate in a field saturated with resource immobilities and non-profit elements, and where demand for care has very slight price elasticity.

While marginal cost pricing is not employed, prevailing sliding scales of charges impose a smaller burden on consumers than would any alternative uniform pricing practice under fee for service medicine, so long as poorer families remain subsidized. Even with subsidization, poorer families would be encouraged to leave an even larger percentage of ailments unattended than under the present system.

Aside from unequal consumer burdens, the chief problem is that medical needs do not correspond to ability to pay — i. e., to money demand. As a result there are areas of relative neglect. The more important is geographic.

Two facets of the provision of medical care must be distinguished: the availability of medical resources, and their rate of utilization. In a community well-stocked with such resources, reasonably adequate medical care can be expected for both wealthier and poorer inhabitants. Low marginal costs of operation and medicine's charity tradition combine to keep the poor provided. In communities badly provisioned, however, the wealthy may be able to obtain acceptable care — even this is doubtful — but poorer families get grossly inadequate attention. The medical care market is basically local. So the availability of medical resources to the community is crucial.

Availability appears to depend on factors like population density, mobility, per capita income, number of rich families. Many of these are interrelated. Per capita income may be taken as central. Construction and operation of hospitals and diagnostic facilities cost money. Existence of such facilities, and of a well-to-do patient body attracts personnel. The result is that facilities and personnel are concentrated in the large cities,, in the wealthy areas. Rural, poor areas — especially in the Mid-West and South — are seriously understaffed. Physicians' average income and work-load figures, moreover, suggest that the situation represents not simply an absolute shortage concentrated in certain areas, but some degree of actual mal-distribution.

The other area of neglect is medical. Despite the non-profit and charity elements in medicine, chronic illness has generally received less attention than acute illness. Partly this is due to inferior ablity to treat chronic illnesses; but also to the "non-productive" reimbursement for such care. Contagiousness, prospect of present payment or future productive work, are largely absent to stimulate public aid. The marginal benefit for specific services is low, and under fee for service there is no evaluative mechanism whereby the social group may take into account the same patient's previous net benefits to society.

A last consequence. Medical care tends to be fragmented. There is little monetary incentive for group practice; but there is incentive for overtreatment by a multiplicity of non-integrated resources.

IV. Private Medicine — Voluntary Insurance.

Voluntary insurance does not organize or provide medical care. As under fire insurance, the subscriber is buying exemption from a probability distribution of possible money losses by accepting a money loss known with certainty.

Under voluntary insurance the contract premium is typically uniform for all subscribers, with perhaps slight differentiation between group and non-group subscribers. The risks within groups are not differentiated. As voluntary insurance attempts to cover more people, higher risk groups

such as the aged will be encountered, and premiums may then be differentiated by risk. For the aged, though, the solution would seem to lie rather in the direction of contracts similar to straight or limited payment life insurance where equity accumulates over the life of the contract. Actuarial overpayments in early years permit under payments or cessation of payments in later years.

Benefits differ depending on type of contract. Up to now, the great preponderance of contracts has been for hospital bills alone, although combination with surgeons' bills is gaining. This experience, moreover, has been achieved with the most eager customers that voluntary insurance is likely to have. In the absence of radical changes in medical practice, the hospital-surgical combination is apt to preponderate in an equilibrium situation.

Very briefly, these are some consequences of voluntary insurance as here characterized.

1) Marginal cost to the subscriber of some hospital procedures are far less than under fee for service. Greater hospital utilization is to be expected, both for "serious" and "non-serious" conditions. The increase will be limited by the fact that not all costs incurred in hospitalized illness are covered by the insurance contract.

2) Subscribers, while not able to budget for medical care on fee for service basis, are able to budget under voluntary insurance. Under fee for service, no provision which the family might make to meet the cost of an unknown burden of illness can be an equilibrium position. Even reserving the mathematical expectation of medical charges is inappropriate, since the onset of serious illness may financially cripple the family.

Under insurance, however, by simultaneously buying up the separate unpredictable risks of many persons, the fund can set up a meaningful mathematical expectation of medical charges per subscriber. Each subscriber is enabled to confront a certain loss no matter what his own actual sickness experience. . Some gain, some lose — but each is almost equally likely to gain before the fact; and the loss represents the real cost of being free of uncertainty.

3) The cost of medical care is spread over the healthy as well as sick in the insured population, thus shifting part of the burden from serously sick to those not so stricken. As a result, under the reasonable assumptions of generally decreasing marginal utility of income and random distribution within each income class of margnal utility of income functions, the total financial burden of illness is decreased.

4) Subscribers, who otherwise would be medically indigent, are generally better off, but the small proportion living where charity standards are very lenient will be worse off. Such leniency,, however, encourages consumer irresponsibility, if insurance is available, because, by remaining uninsured these familes are gambling with other people's money.

5) There will be some decrease in the medical indigent load. But a sizable group of persons may be expected to refrain from buying voluntary insurance: a) the possibility of a "free ride" as medical indigents, b) optimism about health, c) high gambler preference, d) high uniform premium, and e) irrational prejudices, may all induce poorer families to gamble.

6) Very slight geographic shift of burden from poorer to richer communities may occur. Most insurance plans cover only a small area, within which there is no appreciable difference in illness incidence or income distribution of subscribers.

7) No appreciable redistribution of medical resources will result. Insurance, by spreading sickness costs among healthy as well as sick, will improve operating incomes of facilities and personnel. But the improvement is not likely to be substantial and there will be little additional financial strength for increased capital and commitments to facilities.

8) Lowering financial barriers to the care of illness in hospitals will tend to distort medical treatment into over-utilization of hospital facilities to the relative neglect of cheaper but no less effective modes of care.

A last word on the strategy of premium and benefit levels under voluntary insurance. From the consumer's point of view, insurance appears to be worthwhile chiefly because it will enable him to avoid financial catastrophe in the event of serious illness. Thus to achieve maximum consumer participation, a contract covering only all basic costs incurred in hospitalized illness (perhaps in ward accommodations) should be available to poorer families. In this regard one such contract might exclude all normal maternity benefits, but include benefits only for maternity complications (like the practice of Group Health Association of Washington, D. C.). Maternity, in being subject to family planning, is not a strictly insurable condition anyway. Excluding these benefits would enable cuts of roughly 15% below current Blue Cross premiums. The encouragement of large families for the poor could be left to alternative contracts or, more appropriately, to public policy.

V. Private Medicine: Compulsory National Sickness Insurance.

Compulsory insurance may take many forms. The only characteristics which I feel can be asumed to be cmmon to all forms are: 1) legally mandatory membership for every family within the affected population group; 2) financial liability benefits as with voluntary insurance; the insurance fund doesn't organize or itself render medical care.

I should like briefly to mention characteristics which differentiate such plans from voluntary insurance.

1) *Financing.* Premiums need not be uniform or vary with individual or group risk. Also, the system need not be actuarially sound. Although payroll taxes are most often advanced as appropriate, there is reason to prefer simple additions to Federal personal income tax (perhaps with somewhat lower progressiveness than the base) with local government

contributions. The payroll taxes proposed involve serious administrative problems when a large proportion of the population is to be covered. Employer and employee contributions are thought to be regressive, the employer portion having potentially poor employment effects. In addition, the tax-consciousness engendered may lead consumers to abuse the system. A compromise for political feasibility might involve nominal contributions with the bulk of financing coming out of general revenue.

2) *Coverage.* Any percentage of the population can be covered. Ensuring adequate benefits and equity of treatment and making the advantages of insurance widespread, recommend total coverage within the single government plan. Parallel operation of voluntary plans with the government plan assuming residual responsibility is probably too difficult administratively. The shifting of the medical care burden from the sick to the healthy will be made general; but there will be a differentiation in this shift: the sick poor will gain more in absolute amount than the richer sick; the healthy richer families will lose more than the healthy poor.

Compulsory payment of taxes to the system would not preclude a consumer making agreements for medical care outside the system. The equity involved here is like that in public education.

Because of compulsory membership, it is claimed that the system is coercive. For wealthier families this claim has merit, although they would probably welcome insurance if the tax progressiveness were less than prevailing price discrimination. But for families with less than average incomes — representing probably the bulk of those uncovered by voluntary insurance — the claim is dubious. Under the charity tradition in medicine, uninsured poorer families may fall upon public support when seriously stricken — they "coerce" hospitals, doctors, other patients, philanthropy and taxpayers at large, into bearing their responsibilities. Many of these too would welcome insurance on favorable terms. Others gamble on getting a "free ride." For the latter group, public coercion represents a correction of individual irresponsibility which adversely affects others.

3) *Benefits.* The benefit level may be set wherever desired. Comprehensive care seems most desirable for although hospitalized illness alone may appear sufficient to the consumer, this discourages economical medical practice. Moreover, it does little to emphasize early diagnosis and other aspects of preventive care.

Comprehensiveness of benefits does not mean equal priority for all illness conditions. Utilizing the "serious," "non-serious" classification developed above, I shall examine the problem of priorities under comprehensive insurance below.

4) *Centralization of Administration.* Under national insurance, the administration may be centralized in various degrees. Voluntary insurance is largely set up under independent smaller-than-state units. With integrated administration, high uniform benefit standards and a pooling of

all insurance revenues into a single national fund, national insurance can bring about improvements over voluntary insurance:

a) enrollment benefits to consumers. Consumers are covered wherever they live. There are no uncovered waiting periods, no loss of membership because of unemployment (due to income tax financing).

5) *Compensation of resources.* Methods other than fee for service can be duplicated under integration; administrative units can be as large as justified by efficiency; unique centralized services can be performed. On the other hand, these are somewhat offset by procedural duplications necessitated by multiple levels of control. To minimize this, much decentralization should be provided.

c) geographic shifts of burden and resources. Voluntary insurance can do little to redistribute medical resources or the financial burden of medical care from poor to rich areas, because the financing and utilization of such resources are left wholly to the finances of the localities themselves. Under voluntary insurance, each community gets only what it can afford to pay for, but under national insurance, a community is not restricted to its own monies: it may share out of the general fund. As a result, the general shift of burden from the sick to the healthy, with its side shift from rich who pay more to poor who pay less, involves wealthy areas subsidizing poor areas. The extent of the subsidy depends on relative incidences of illness and the degree to which additional medical resources are attracted to poor areas. Operating revenues of resources already established in these areas will probably increase sizeably, philanthropy and taxing powers may be relieved. But these are only permissive factors: there is no guarantee that communities will want to expand medical facilities. Besides, even expansion may not be enough to lure doctors from the attractions of metropolitan practice.

The advantage of giving Federal aid through an "insurance system" is that operating funds are advanced to each area on the direct basis of its need for medical services. No additional political influences are needed. Capital grants are not hereby precluded.

5) *Compensation of resources.* Methods other than fee for service can be effectively used under national but not under voluntary insurance. Resources can also be paid by capitation or salary. The capitation method seems most desirable. Most doctors strongly oppose a salary basis. They feel that their status would fall to that of a civil servant — an employee of the state. The use of salaried compensation might seriously lower practitioners' morale and sap their incentive to give high quality medical care. It would do nothing to encourage preventive care. Its only advantage is that it would require the smallest administrative load.

Fee for service has been most preferred by doctors; but its use would involve detailed reporting by doctors on every case, hence violating doctor-patient confidence, enlarging administrative apparatus, and requiring supervision over the practitioner's medical work. It would encourage

overtreatment but do nothing to encourage preventive care. It might encourage the opposite.

Capitation would not require reportage: full responsibility for diagnosis and treatment would belong to the practitioner. Because the doctor's marginal revenue for a procedure is zero, he has no incentive to overtreat patients. If there is no serious shortage of doctors or over-utilization by consumers, and if capitation rates are not low — this incentive can be channeled to stress preventive care. Lastly, capitation imposes no financial incentive against group practice: in fact, the greater the operating efficiencies of group practice, the greater will be its positive attraction under capitation.

The basic compensation of hospitals should probably be remuneration of total costs (including depreciation). Marginal costs are inappropriate; "inclusive" costs might result in undesirable stinting of hospital services; the separate financing of stand-by and inpatient variable costs is irrelevant, unless the variable element is part of a scheme designed to press down hospitals' costs. Such a scheme is dangerous under a system where the insurance fund is the hospital's sole source of revenue (the role of philanthropy is problematical). Economy should probably be left to internal control by trustees and staff.

The Distribution of Medical Services

Probably the most important difficulty under national insurance is that of distributing medical care among applicants.

Under fee for service medicine, despite the mollifying effects of price discrimination and third-party charity, the positive cost to the consumer of each additional medical service acts as a disincentive to his seeking the best possible care for every trivial complaint. But because of the gamble, the fallibility of self-diagnosis and the separation of medical needs from money demand, the disincentive is too strong and resources are distributed badly: too few preventive and diagnostic services, inadequate care for some full-blown serious illnesses. The distribution of the patient load among medical resources reflects to some extent preemption by income as well as by need.

Under voluntary insurance, the major change is that additional hospital services will be sought, some at the expense of non-hospital services. Fee for service disincentives for the care of the bulk of trivial ailments will remain.

Under national insurance as so far outlined, all disincentives will be removed. What can ensure that medical resources will not be swamped by trivial complaints, that specialists will not be sought unnecessarily, and that these pressures will not force an overexpansion of medical resources at the expense of other productive areas?

Part of the answer lies in internal professional controls. But a financial mechanism is advisable to strengthen these defenses. The key

would appear to be to impose coinsurance features into the insurance system. Coinsurance should apply only to non-serious illnesses, must be consistent with income tax financing, and capitation reimbursement.

The following administrative mechanism sketched briefly — in effect a point Rationing System — might meet these objectives.

Point Rationing System. Consumers would pay medical resources directly for all services with non-transferable dated, signed and addressed coupons of two kinds — one for "serious," the other for "non-serious" conditions. Diagnosis to classify a condition would be considered "serious." Specialists and hospital services would be by referral only so that patients know beforehand in which category they fall. Point prices would be based on quantity of services. Upon periodic issuing of new coupon books, consumers would pay cash for old "nonserious" coupons not returned to the insurance office but not for "serious" coupons spent. Rates would be small, for disincentive only. Medical resources would turn in all coupons received. In addition to basic compensation, practitioners (and perhaps druggists) would receive cash for "non-serious" coupons, but not for "serious," to avoid collision with consumers. Consumers would be protected by the administration calculating serious/non-serious workload ratios for all resources, and investigating decidedly low ratios.

VI. Socialized Medicine.

Space does not permit more than to differentiate socialized medicine from compulsory national insurance. Socialized medicine involves government ownership of facilities and an employer relationship with all medical personnel. The government organizes and renders care. As such it may determine distribution of medical resources and the burden of care. It is faced with problems similar to those of national insurance with regard to over-all financing and distributing care among applicants. The chief issues concern the complete antagonism of the practitioners who would have to work under the system and an evaluation of socialization in general.

Discussion

by

Frank G. Dickinson, Director of Bureau of Medical Economic Research, American Medical Association

The paper by Professor Harris is a very concise statement of some of the economic effects of the British National Health Act. In fact it has both the virtue and the vice of strictly economic analysis unleavened by consideration of experience with medical practice. It is strictly short-term both in its analysis and in its forecast of changes that may be expected.

The detailed analysis of costs and the changing character of medical expenditures is very useful indeed. The interpretation of the statistics is confined to those facts on which an economist can rightly pass judgment. And while these selected efforts of the health scheme are impartially presented, it seems to me that Professor Harris counts rather heavily on time to remedy defects which his own analysis shows to be caused mainly by financial stringency and human frailty. If the general practitioner has been pushed into an unfavorable position relative to other medical service personnel, and if, as Professor Harris says, one of the principal needs is for more money for the G.P., where is it to come from? If hospitals are overcrowded, where is the money to build new ones to come from? How are hypochondriacs to be separated from those seeking early diagnosis of serious illness?

But most serious of all, how is merit among medical personnel to be rewarded? The fee-for-service system, despite its alleged shortcomings, rewards those who excel. The British health scheme puts a penalty on careful, time-consuming diagnosis and treatment. As Professor Harris states "the physician tends to depend less on history, clinical observations and the like and more on snap judgement and medical prescriptions." It may well be that deterioration of quality has not been serious yet, but I wonder what the effect will be when those doctors with previous training and experience are replaced by those with no experience in the "old school." No responsible person in this country urges that our medical schools return to the standards of 1900 when hundreds of diploma mills turned out graduates quite ready to make snap judgements but hardly fit to practice scientific medicine. A British doctor who must always hurry simply cannot maintain high standards. I believe that emphasis on quantity rather than quality is self-defeating. Experience with compulsory health insurance in other countries reveals that rather than decreasing illness and absenteeism, the number of days per year lost per worker to those causes have steadily increased in those countries while medical progress has advanced by leaps and bounds.

I would like to say only a few words about one of the "wastages" to be eliminated by the health scheme. Monopolistic buying by government may eliminate some selling and advertising expense, but the procurement experience of our own government doesn't augur well for efficiency. Moreover, the "careful listing of medicines and drugs available under the scheme" is as direct an invasion of the methods of practice of medicine as can be imagined.

Finally, I would like to suggest that the British experience with a compulsory health system is not too helpful to us in the United States. As Professor Harris states, the philosophy of the Welfare State is generally more acceptable in the United Kingdom than here. Furthermore, we have no crisis in hospital economics such as faced the British at the end of World War II. Our medical care institutions are going concerns, whereas the British had both to replace bombed out hospitals and to reorganize many existing ones. There is no health crisis in this country that calls for government direction of consumer expenditures from recreation to medicine. We have the opportunity to improve our medical care and its distribution by means far less drastic than the one the British people have chosen.

In summary:

1. The sum and substance of this paper is the old Chinese Proverb, "Make haste slowly." He really thinks the British moved in the right direction but moved too hastily.

2. Harris apparently subscribes rather wholeheartedly to what might be sharbly termed "the poor dumb peasant theory." The British people should not be permitted to spend their money as they see fit, but priority should be set up through a system of taxation in order that medical care shall become a "must" item in the British family budget.

3. I have defined cradle to the grave (to which Harris refers in his quotation from the Beveridge Report) as "a scheme whereby those close to the grave would fasten themselves on the pay checks of those closer to the cradle and ride piggy-back, or piggy-bank, to the grave." The British may subscribe to this doctrine, but I don't believe Americans do generally. They have not yet succumbed to a plan to rob youth.

4. Harris underestimates the importance of the hospital crisis in England which was the main reason for accepting socialized medicine.

5. Physicians' incomes in the United States have risen almost, but not quite, as rapidly as per capita national income since the base period, 1935-1939.

6. Harris never quite answers one of his leading questions "Can the British afford these large outlays?"

7. Should the wealthier nations spend a higher or lower percentage of national income on medical care than poorer nations?

8. Finally, I firmly believe that the British experience provides no guide for a plan of action for the United States. I would add two reasons to those Harris has presented:

A. About 38 per cent of their voters are more than 50 years of age as compared with only 33 per cent of our voters.

B. Their tight little island provides no health contrast such as infant mortality among American Indians, maternal mortality among negro mothers and the long-lived Swedes of Minnesota who live longer than the Swedes in Sweden.

* * * *

"Welfare Implications of Alternative Methods of Financing Medical Care" by Jerome Rothenberg.

Professor Rothenberg has presented a discussion of the economics of medical care under several theoretical systems of payment. In the definition of terms and the careful enumeration of results which may be expected under various conditions of medical practice, the paper is very valuable as an outline of the alternatives which now present themselves — although I do not think that the possibilities of further development of so-called "voluntary plans" is carried nearly far enough, especially in comparison with the lengthy discussion of compulsory insurance.

I wish that Rothenberg had carried his separation of illness into serious and non-serious a little further into the realm of what may practically be done to implement this idea. For example, it may well be possible to set up a type of insurance using the $50 deductible feature now commonly used in automobile insurance. I also regret that Professor Rothenberg seems to have forgotten his earlier recommendation that "non-serious conditions should — consistent with non-medical needs — be left to the workings of the market" when he concludes that "comprehensive care seems most desirable for, although hospitalized illness alone may appear sufficient to the consumer, this discourages economical medical practice."

I think it is important to point out the different emphasis which is placed on quality of medical care by Professor Rothenberg as compared by Professor Harris,

The four separate discussions of private medicine — fee for service, private medicine — voluntary sickness insurance, private medicine — compulsory sickness insurance and socialized medicine, are, as Professor Rothenberg states, subjective analyses. And although historical comparisons were purposely left out, I believe that this approach results in a treatise so isolated from every day experience as to leave one without a sense of direction. A discussion of methods of payment for medical care should involve more than just the welfare of the individual patient. Since Professor Rothenberg apparently recommends compulsory health insurance, I think it is incumbent on him to justify taxing all the people for medical care and depriving them involuntarily

of other consumer goods. But I must hasten. Now for some short comments on Rothenberg's paper.

1. There are many quotable sentences and phrases in this paper which I would call good writing.

2. He says that he is not going to do something and then turns around and does precisely that. For example, "we cannot evaluate medicine in isolation." It seems to me that he does take the problem out of its setting several times.

3. In contrast with the session yesterday morning, he does say that group practice is not an unmixed blessing because it can, but need not, encourage over treatment.

4. I commend the reasons he gives for people not buying voluntary health insurance to the sales organizations of all voluntary health insurance companies and plans. I think they could build a good sales talk on these reasons.

5. The people who cannot afford the Blue Cross and Blue Shield types of insurance are those who cannot afford the premiums — for an entire family these premiums rarely exceed the price of a pack of cigarettes per day.

6. His attempt to draw a fine line between Socialized Medicine and Compulsory National Health Insurance — mentioned in his last paragraph — reminds me of the claims in 1941 that we could have price control without consumer rationing. But we did have *rationing!*

* * * *

"Alternate Solutions: Voluntary and Compulsory Medical Care Insurance" by C. A. Kulp.

This is the most theoretical discussion I have ever heard by Professor Kulp. His thesis is built upon four assumptions to which at least one more assumption should be added to provide reasonable support for his conclusions. That fifth assumption is that no one at any time in our economy has any personal savings.

These assumptions take one away from the realm of reality, largely because Kulp has not tackled the hard problem of applying these assumptions to the purchase of goods and services which human beings need, or, at least think they need. For example, are they applicable to the purchase of food, clothing and shelter? If not, why not? If they are generally applicable, then they lead inevitably to the conclusion that the only solution for unmet needs for *all* goods and services is compulsion. This is another variant of the Harris thesis, to which I have referred somewhat more sharply than I should, as the "poor dumb peasant theory." Kulp leaves no alternative but compulsion as the royal road to providing the last dollar of funds to pay for the last dollar of cost for all goods and services. I should like to ask this eminent student of insurance if fire insurance is unsatisfactory because the loss not infrequently exceeds the amount paid by the insurance company. Then is compulsion in order on fire insurance?

Can a society remain free under government compulsion for the payment of this last dollar of economic loss? Can a more effective method of bringing about totalitarianism be invented than to prey upon the Americans' love for insurance? I am sure Professor Kulp will not misinterpret that question.

Let us return to his assumptions, particularly No. 2. "It is much more likely that the average American under existing medical care financial arrangements will sooner or later be faced with unpaid medical bills or unmet medical needs than he will not." Then at the bottom of the next page he states "Granted the second assumption, that of unmet need for the average man (and the collateral assumption of the importance of medical care for all citizens), the case for compulsion by the state is for the greatest part conceded." Tie two sentences together and you have the gist of his paper — if we assume one thing, we conclude another. In other mords, I specifically charge Kulp with having assumed a conclusion.

But let us leave the question of logic at that point. Does he not offer an alternative solution to his alternate solution? If private insurance can be trusted to take care of the small claims and thereby supplement compulsory coverage of large claims, why could we not eliminate the necessity of using compulsory insurance at all if private insurance is that good? Can't we accomplish the goal by raising the limits of coverage of private insurance? Blue Cross now pays about 82 per cent of the average hospital bill and the difference is due, in part, to luxurious accommodations. Would Professor Kulp be satisfied with 90 per cent? After all, we have only been working seriously at voluntary health insurance for some two decades. The average reimbursement on physicians' bills, which don't usually come in such big chunks as hospital bills, is considerably less than 82 per cent.

Finally, although it may seem somewhat out of keeping with Kulp's theoretical discussion, might I note that the largest Blue Cross claim paid during 1949 was $5,578.80 on a hospital bill of $6,273. 71 and the highest during 1950 was $7,512.40 on a hospital bill of $7,804.92. Likewise, the highest claim paid by a Blue Shield plan in 1949 was $1,771.00 — all but $40 — of the total physicians' fees for a man in California who was badly burned. So the alternative to the alternative is to keep working toward better coverage of our voluntary plans without risking a complete change in our way of life.

Part II — Review of the Year

Life Insurance*

by

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The United States legal reserve life insurance companies had about $235,000,000,000 in force December 31, 1950, it is estimated by the Life Insurance Association of America. This includes $150,300,000,000 Ordinary, $34,000,000,000 Industrial and $50,700,000,000 Group. These figures include insurance in other countries, almost entirely Canada. The estimated total net of reinsurance on U. S. residents, excluding that in Canadian companies, on about 83,000,000 policyholders is $228,000,000,000, an increase of 6.7% in 1950. This total is distributed $145,100,000,000 Ordinary, $33,200,000,,000 Industrial and $49,700,000,000 Group.

The new paid-for business of United States companies for 1950, not including revivals or increases, is estimated at $30,800,000,000, the new Ordinary being $18,600,000,000, the Industrial $5,600,000,000, and the Group $6,600,000,000,000, these representing increases over 1949 of 23.8%, 14.0%, 12.0% and 85.4%, respectively. The total on United States policyholders only is estimated at $29,500,000,000. The insurance lapsed and surrendered was about 15% greater than in 1949 when the total was about 22% greater than in 1948. The payments to policyholders and beneficiaries are estimated at $4,250,000,000 (7% greater than in 1949) of which about 63% represents payments to living policyholders. Also, approximately $3,775,000,000 was added to reserves to be paid to policyholders and beneficiaries in the future as their claims mature.

There is also about $8,200,000,000 insurance in force in fraternal orders and $400,000,000 in assessment organizations and $2,150,000,000 U.S. Government Life Insurance on veterans of the first World War. The amount of National Service Life Insurance resulting from the last war and the Korea action is about $45,000,000,000. The amount of Savings Bank life insurance in force in Massachusetts, New York and Connecticut is about $600,000,000.

Benefits under the Social Security system to widows, children, and others are paid, except for certain comparatively small amounts, in

*This article is based on the same original notes as the corresponding review in the 1950 American Year Book by the same writer but this has been considerably expanded from that.

monthly income during widowhood, infancy, etc., as defined by the law. These payments are not usually considered as life insurance, but if the present value at date of death of such benefits were calculated, the total was variously estimated a year ago at from $60,000,000,000 to $100,000,000,000. This amount would increase considerably in regular course year by year, but will be immensely increased by extension under the new law of such benefits to about 10,000,000 additional participants and by other changes in the law.

Every life insurance company must file before March 1 a very complete annual statement with the Insurance Department of every state in which it is licensed, but it takes months for even organizations devoted to the compilation of statistics to assemble totals of all companies. The latest comprehensive statistics available, therefore, are for 1949.

LEGAL RESERVE LIFE INSURANCE

1949[1]

(Dollars in Millions)

Premium Income,	$ 7,409	Real Estate,	$ 1,247
Investment Income,	1,891	Mortgages,	12,906
Other Income,	838	Bonds,	39,274
Total Income,	10,138	Stocks,	1,713
		Collateral Loans,	12
		Loans to Policyholders,	2,240
Death Claims Paid,	1,484	Cash,	908
Matured Endowments,	470	Deferred and Unpaid	
Annuities and Disability,	368	Premiums,	904
Surrender Values Paid,	589	All Other Assets,	426
Dividends to Policyholders.	634		
Accident and Health			
Benefits,	321	Total Admitted Assets,	59,630
		Liabilities,	54,852
Total,	3,866	Capital and Surplus*,	4,778
		Other Disbursements,	2,388
		Total Disbursements,	6,254

*Includes amount set apart for dividends to policyholders during following year and special, voluntary, contingency, etc., reserves.

	Ordinary	*Industrial*	*Group*	*Total*
New Issues and Increases,	$ 17,267	$ 6,015	$ 5,098	$ 28,380
Terminations:				
Death,	1,053	255	265	1,573
Maturity,	302	146	1	449
Surrender,	1,655	978	25	2,658
Lapse,	3,852	3,464	354	7,670
Other,	1,716	399	597	2,712
Total,	8,578	5,242	1,242	15,062
Insurance in Force,	144,458	32,983	43,075	220,516

1. Spectator Insurance Year Book — All United States companies (435).

James J. O'Leary presented to the Life Insurance Association of America the following estimates of admitted assets as of December 31, 1950. These estimates are based on 10-month actual records for about 135 companies which at the end of 1949 accounted for 97 per cent of the assets of all United States legal reserve companies.

Investment Class	*Amount Outstanding**	*Increase during 1950**
Bonds — U. S. Government	$13,650	
State, County & Municipal	1,125	
Canadian	1,450	
Other Foreign	25	
Total Government	16,250	$ 1,531
Railroad	3,175	160
Public Utility	10,600	840
Industrial & Miscellaneous	9,375	699
Total	39,400	168
Stocks — Railroad	125	
Public Utility	700	
Other	1,225	
Total	2,050	319
Mortgages — Farm	1,325	
Other	14,725	
Total	16,050	3,156
Real Estate	1,425	180
Policy Loans and Premium Notes	2,400	162
Cash	1,000	) 460
Other Admitted Assets	1,675	)
Total Admitted Assets	64,000	4,445

*Dollars in Millions.

The net increase in investments in the private sectors of the economy once again exceeded the net income in assets. The difference was made up from the net proceeds of government bond sales and maturities.

	Per Capita Investment		*Ratio of Investment* to Reserve*	
	1929	1949	1929	1949
New England	$ 74	$280	47%	66%
Middle Atlantic, ...	147	374	79	74
East North Central	124	318	104	92
West North Central, ...	181	292	196	104
South Atlantic, ...	92	292	135	151
East South Central	84	239	164	188
West South Central, ...	75	330	198	259
Mountain, ...	112	315	161	158
Pacific, ...	131	324	131	128
Continental United States, ...	120	317	109	104

*For 49 companies representing 88.8% of the admitted assets of all U. S. legal reserve life insurance companies at the end of 1949. Distribution of investments is in accordance with the geographic location of the properties securing the investments, with United States government bonds allocated on a population basis.

Further but only limited improvement in the ratio of investment earnings to mean ledger assets occurred in 1949. The average rate for 1949 for the companies represented in the preceding table was 3.02%. The minimum of 2.87% was reached in 1947. The improvement was traceable in large measure to the declining proportion of low-yielding United States government bonds held by the companies and to the rapid expansion of mortgage portfolios. Long-term interest rates continue to be held, by government policy, at low levels. The rate of investment earnings is still 40 per cent below the 1930 level.

Mr. O'Leary commented early in December that there are some indications that we have reached a crossroads with respect to government interest rate policy. "During World War II interest rates were pegged in a pattern ranging from ⅜ of 1 per cent on Treasury bills to 2½ per cent on long-term marketable bonds. As inflation proceeded in the post-war period there was much support outside the United States Treasury, and particularly in the Federal Reserve Board, for allowing short-term interest rates to rise as a means of combating inflation. Last August the Federal Reserve Board, pointing to heavy inflationary pressures which developed after the outbreak of the Korean War, approved an increase in the discount rate at the New York Federal Reserve Bank. Subsequently, through open market operations, the System has brought about a significant rise in short-term money rates. If strong inflationary pressures persist, as now seem likely, will not the Federal Reserve Board be compelled, by the logic of its position, to raise short-term interest rates still higher? And if so, can this be done without also raising long-term rates? These are questions likely to be discussed with increasing interest in coming months.

"There are parallel reasons in the field of public debt management why the existing rates on long-term government securities, both marketable and non-marketable, need not be regarded as inviolate. It is widely agreed that a major cause of the inflation we are experiencing is that our money supply has expanded at a faster rate than the supply of goods and services. A large part of this expansion in the money supply occurred initially through the purchase of government securities by the commercial banking system during the war. Every effort should now be made to get as much as possible of this debt out of the banking system and into the hands of non-bank investors, thus reducing the money supply. In order to accomplish this purpose, however, the Treasury probably would have to make its securities more attractive to non-bank investors, and one of the effective ways to do this would be to allow some rise in long-term interest rates." Since the preceding was written, it has become clearer that the financial situation of the Government has changed so radically, with such huge increases proposed for the budget and taxation, that there will be more than ever discussion of how far taxation can go and at what interest rate government bonds should be issued. Even if the government debt isn't increased, which may be a Eutopian hope for stalling inflation, billions of government notes and bonds must be issued to replace unprecedented maturities. Several life insurance leaders have emphasized recently the dangerous effects on the country of increasing inflation.

Accident and health protection in the United States provided by group plans written by insurance companies, life, casualty and accident and health, increased one-fifth during 1949, based on the amount of premiums paid, $1,466,700,000, and was more than double the volume of such protection for 1945, the Life Insurance Association of America reports.

Employer-employee groups have made tremendous strides in recent years in developing voluntary worker security programs through group insurance. The group insurance outstanding at the start of 1950 covered by this survey was: 17,697,000 employees and dependents with hospital expense benefits; 15,590,000 with surgical expense benefits; 2,736,000 with medical expense benefits; 10,260,000 persons with $228,400,000 weekly income protection in event of accident or sickness; 17,090,000 with $39,983,800,000 group life insurance protection; 6,015,000 with $2,054,300,000 group creditor's life insurance covering balances on loans; 6,699,000 with accidental death and dismemberment benefits; 1,999,000 with group annuities.

The Houes of Representatives unanimously passed the Rankin bill substituting gratuitous indemnity for National Service Life Insurance on members of the armed forces. The bill didn't pass the Senate before the 81st Congress expired so it must be repassed by the House as well as be passed by the Senate in which more opposition is expected. Reports have been made that the expenses of handling the National Service Life Insurance are far greater comparatively than those in insurance companies and the proponents of this legislation claim that the savings from not keeping so many records, not actually issuing insurance policies, not collecting premiums, and not disbursing dividends will cover at least a great

part of the extra payments to beneficiaries that will result from payments to beneficiaries of every service man who dies in service instead of only to those who would hold insurance policies. It should be remembered that the Government has always met the cost of all N.S.L.I. deaths that could be considered due to military or naval service and that the average amount of such insurance held by men in the services who have had dependents or other logical beneficiaries has been very high. There are appealing arguments in favor of the bill but also potent arguments against it. It is reported that the American Legion opposes it.

The bill provides servicemen's indemnity of $10,000 without cost to the dependents of all armed forces' members who are killed on or after June 27, 1950. The period of coverage would extend to the entire length of service and 90 days after discharge except that this 90-day protection would not apply to persons not ordered to active duty for more than 30 days, such as local reserve units engaged in short training periods. Beneficiaries of the proposed indemnity having other government insurance at time of death would receive the difference, if any, between its amount and $10,000. Retired personnel on inactive status or recipients of compensation or pensions under laws administered by the veterans administration would be excluded. The V.A. administration, upon certification of death by the secretary of the service department concerned, would pay indemnity to the surviving spouse, child or children, parent, brother or sister of the insured. Within those classes the insured could name the beneficiary. Section 10 of the bill bars the granting of any further N.S.L.I. or U.S.G.L.I. except as indicated above, and where a veteran has suffered service-connected disability that makes him uninsurable commercially at standard rates. Service-connected disability would be subject to liberal interpretation by V.A.

In a review of the year from a home office underwriter's viewpoint, William H. Dallas said that the war clause and war coverage situation illustrates how extremely competitive the business is..

"Every individual company is affected by decisions and actions of all other companies. Both agents and applicants are fully familiar with what can be secured and what cannot be. Of course, life insurance home offices are just as much in the dark, and just as uncertain, as all other businesses affected by war or heavy rearmament. The only difference is that the life insurance business cannot wait, because it might find itself with a tremendous liability in the way of a very large volume of new insurance on which the company has no protection in the event of a serious and devastating war. The situation was complicated by the attitude of the supervising officials in the 48 states.

"The Commissioners are inclined to take the stand that civilian war casualties in the home areas are risks that will have to be assumed by the life insurance business. They also insist that war clauses of the future be confined to limiting the liability on policyholders who become casualties due to acts of war outside the continental limits of the United States and Canada.

"When the Korean trouble first broke the companies adopted various restrictive measures for their own protection. Many companies immediately closed down on new issues without war clauses to members of the armed forces. They also stopped issuing policies with full avaition coverage to pilots who were subject to call to active duty. There wasn't as much uniformity in the treatment of applicants within the draft ages, members of the National Guard, and active and inactive reservists. Some companies continued to write individuals in these various groups on an individual basis, with a strong tendency to restrict the amounts and plans, and to avoid full coverage on those who were subject to early call to active duty."

The life committee of the National Association of Insurance Commissioners in December decided to broaden the specified exclusions previously approved by adding to the exclusions the risk of death as a result of special hazards incident to service in the military, naval and air forces and non-combatant civilian units so as to exclude war deaths of policyholders missing in action, or while a member of a unit enroute to the theater of war or in cases of disappearance which are unaccounted for. This would take care of certain types of deaths obviously resulting from a state of war but not directly the result of war or act of war.

The committee is still opposed to a status-type clause and prefers the results variety. It is the committee's intention and the industry's understanding that claims arising from deaths due to normal causes are to be paid, regardless of the fact that the policyholder may be a member of the armed forces or a non-combatant civilian unit serving with such forces. Perhaps it should be interpolated that nearly all policies now in force include no war clauses and that in even those issued with war clauses before 1950, the clauses have been waived by the companies in practically all, if not all, such policies.

Mr. Dallas also wrote: "Economists differ as to the degree of inflation that lies ahead of us, and as to the ultimate effects of such inflation as may take place. Fortunately the life insurance business is able to meet, to some extent at least, the dangers of inflation, and even the ultimate effects. It does seem reasonable to believe that part of the large increase in new business, the larger average policies, and the bigger programs undertaken by many careful business men are influenced by the general uncertainty as to the future purchasing power of the dollar.

"The tendency to extend substandard underwriting, and to try to fit many impaired lives into high substandard classifications has continued throughout the year. This has resulted in lower rejection ratios, but a greater need for skilled salesmanship in explaining and delivering highly rated contracts.

"Early in the year many companies that are willing to consider American and Canadian citizens who are going to travel extensively abroad or who are going abroad to live, gave careful study to their climatic ratings. There was a general lowering of these ratings. As usual,

competition was a factor, but in all fairness, it must be admitted that sanitary conditions in many large cities outside of the United States and Canada are improving steadily, and it is reasonable to believe that future mortality, even in tropical and semi-tropical localities, will be better than in the past. Of course, the outbreak of a major war would immediately create serious objections to foreign travel and foreign residence."

Several interesting compilations, some based on special requests to the companies for information, have been made by the Institute of Life Insurance.

Life insurance policyholders had a record health year in 1949, the death rate per 100,000 reaching a new low of 701. This compared with 709 the year before and an average of 1,060 for the years 1915-20. Among the owners of some 60,000,000 ordinary life insurance policies, the death rate was 611.4 per 100,000 compared with 625.1 the year before and 668.8 in 1942. The death rate from the chief cardiovascular-renal diseases, commonly classed as heart disease, was 317.1, compared with 327.9 the year before. Cancer was the second most important cause, with a rate of 98 .4 compared with 98.7 the year before. New low rates were reported for tuberculosis, respiratory disease and accidents. The 1949 experience among the owners of same 100,000,000 industrial life insurance policies was found to follow the same general trends, though at a higher level, largely because they are not generally subject to medical examination. Their death rate was found to be 753.7 in 1949, compared with 761.8 the year before and 787.9 in 1942. The rate for heart disease was 351.9. The rate among industrial policyholders of the Metropolitan Life Insurance Company was 640.0 for ten months of 1950 compared with a rate of 98.4 compared with 98.7 the year before. New low rates

Life insurance policyholders and beneficiaries set aside nearly $860,000,000 of their 1949 benefits for income use, rather than drawing it out as lump sum settlement. This brought to $4,800,000,000 the total of funds now held in trust for income payment to policyholders and beneficiaries. The 1949 payments from these funds were $470,000,000.

Employment in the life insurance business was at an all-time peak at the start of 1950. Present employment in the business is 37 per cent greater than in 1940, the greatest gain having been in home office employees, to handle the rapidly expanding total of business on the books. Life insurance in force is now approaching twice the '40 total.

	Men	Women	Total
Home Office	37,500	71,800	109,300
Agency Cashiers and Clerks	4,100	32,300	36,400
Agents and Agency Managers	186,100	4,700	190,800
Total	227,700	108,800	336,500

"At the start of this year there were 609 legal reserve life insurance companies in the United States, according to reports received from the

state insurance commissioners. This is 25 more than a year ago, most of the new companies being in the south and southwest. The present total is 146 greater than only four years ago," the Institute reports. "There are now more than seven times the number in business in 1900. The smaller, younger companies have for some time shown a greater rate of growth than the older, larger companies. One or more life companies is domiciled in every state, with the single exception of Wyoming. Texas is the leading state, with 108 companies, Louisiana second with 82 and Illinois third with 30. Twenty-four states have ten or more companies each. There are twelve life insurance companies which are over 100 years old and three others which are in their hundredth year. An additional 20 companies are between 75 and 100 years old and 50 more are 50 to 75."

"The highly competive nature of the life insurance business is clearly shown in the figures on sales and total insurance outstanding in the various age groupings of the companies. The 15 oldest organizations account for only 14 per cent of total life insurance outstanding and 12 per-cent of current sales. At the same time, the companies less than 50 years old account for 17 per cent of total life insurance outstanding and 31 per cent of current sales. These younger companies now have $34,-000,000,000 of life insurance in force, four times the total outstanding in the United States when the first of them started, and they are currently writing over $7,000,000,000 of new life insurance annually.

"In recent years, the smaller, younger companies have been taking an increasing share of the new business annually, as compared with the larger, older companies. The share of total sales accounted for last year by the five largest companies was 22 per cent smaller than that of the five largest in 1930. Total life insurance sales have increased nearly 50 per cent in the 20 years, but the five leaders show an aggregate rise of less than 8 per cent. Only one of the five largest companies is among the centenarians and only seven of the largest 20 companies are in that group. The four top leaders and eight of the 20 largest companies are in the group of 75 to 100 years old. This group of 20 companies accounts for 61 per cent of total life insurance in force and only 46 per cent of current sales."

"Women in the United States bought more life insurance in 1949 than they ever bought in a single year before. Their purchase during the year amounted to $3,700,000,000 worth, $200,000,000 more than they bought in 1948 and at least twice as much as women ever bought in any one year prior to 1940." Three reasons for last year's record purchases of life insurance by women were cited by the Institute. "The first reason is the growing financial responsibilities of women to their families, the second reason their growing interest in obtaining retirement income for themselves, and the third reason the high level of employment which they once again maintained during 1949. The total of all life insurance owned by women is around 40 billion dollars." Men own about 160 billions and the insurance owned on the lives of boys and girls under 15 accounts for around 14 billions more according to this survey.

It is expected that American families put $7,100,000,000 into life insurance and annuities during 1950, some 80 per cent greater than the 1940 total, but this year's premiums will represent a materially smaller share of aggregate family income than ten years ago. The flow of family dollars into this anti-inflationary channel will be $3,200,000,000 greater this year than in 1940. And yet on the basis of present income trends, this greater volume of premium payments will probably represent only about 3.25 per cent of national income compared with 4.9 per cent in 1940. There is a great need under today's conditions for emphasis on savings of all types if we are to minimize inflationary trends and protect the buying power of both the amounts newly saved and those accumulated in the past.

About $600,000,000 of life insurance will be kept in force this year through the special "waiver of premium" disability clause contained in many policies, a clause that makes it unnecessary for persons permanently and totally disabled through accident or sickness to pay their premiums. In addition, $40,725,000 was paid American families in the first half of 1950 as income payments under disability provisions attached to their life policies.

Largely because of the material increase in purchases of family income plans and other special protection policies, term insurance ownership has nearly tripled in the past seven years to a record $15,000,000,000, exclusive of group insurance, the Institute reports. Regular term insurance had risen to 4.6 per cent at the end of 1949. In the same period, the additional term insurance, used in conjunction with permanent programs, rose to 6.0 per cent of total ordinary insurance. $8,500,000,000 of the total was additional term insurance linked with other basic policies and thus forming a part of permanent insurance plans. The basic policies represented at least another $8,000,000,000 of protection. Family income plans and other special protection types of policies, largely the product of the past 20 years, have assumed an important role in life insurance planning.

With the addition during 1949 of 172,000 annuity contracts to those outstanding, the total in force rose to 3,355,000, according to the Institute. This total is more than twice the number owned ten years ago, reflecting the growing interest in retirement planning, both individually and via employee groups. The annuities currently owned represent annual income of $1,173,000,000. Of this, $273,000,000 under 697,000 contracts is now payable to the annuitants, $515,000,000 under 1,993,000 units is fully paid, for with income payments to begin in the future and $385,000,000 under 665,000 contracts is for future income under plans still being paid for. Total payments due to be paid out eventually under the life company annuity contracts now in force will be many times the one-year income shown in ownership figures. In the case of typical annuitants age 65, for instance, the life expectation at that age would make eventual payments at least twelve times the one year base.

The greater part of the increase in annuity ownership in recent years has come from the rapid expansion of group annuities. These have practically tripled in the past ten years to a present total of 1,928,000 and the annual income provided by them has more than tripled to $499,000,000 In the case of group annuities, this total income figure does not represent future potential income, as a large number of group plans report only annual paid-up additions and not the income eventually to be paid if the worker remains on the job until retirement. Eventual income would be much larger. The past decade has also seen a material growth in the use of life insurance benefits to provide annuities, such supplementary contracts involving life contingencies having nearly trebled, both in number and amount of income provided. There are now 200,000 of them in force, representing annual income of $93,000,000. Individual annuities, the original base on which annuities developed, have also increased steadily in the ten years from under 1,000,000 to 1,227,000.

More than 7,000,000 workers have been brought under the protection of about $20,000,000,000 group life insurance since 1945, the Institute reports. The tremendous increase in group life insurance in the past five years is a demonstration of the scope of voluntary security set up through the joint efforts of employers and employees. It is evidence of the progress made by the American people in developing their security on a voluntary basis and, furthermore, that management and labor are working together effectively to achieve this end. There are now some 53,000 employer-employee groups covered by this type of protection. Nearly 19,000,000 individuals are now insured by group plans, compared with fewer than 10,000,000 ten years ago.

More than 11,000 insured pension plans, covering some 2,800,000 workers were in force by the middle of 1950. Annual retirement income to be provided under these plans is expected to be well in excess of $1,000,000,000 and to back this up $4,500,000,000 already has been put into life company reserves, invested in productive enterprise, throughout the nation. The number of plans has increased seven-fold in the past ten years from 1,500 in 1940 and the number of workers covered has quadrupled from 700,000. During the first six months of 1950, new pension plans were being set up at the rate of sixty per month, with over 200,000 persons being brought under pension protection in the half year.,

"There has been a stimulation of public interest in the subject of pension planning during the past year and yet the development of insured pension plans have been persistent over the past decade," the Institute commented. During the war years, 1941-1945, insured pensions doubled in number of persons covered. In the years since the end of the war, they have almost doubled again. These insured pension plans will have a long-term stabilizing effect on the economy, both from the large sums to be paid annuitants and the investment uses of reserve funds. The greater number of plans was on the individual policy pension trust basis

at mid-year, more than 7,250 such trusts being in force covering 450,000. This reflected the popularity of the individual policy plan among small employers. The largest number of workers was covered by group annuities, nearly 2,300 such contracts setting up pension programs for 2,000,000 workers on June 30.

"Another type of group annuity plan, the deposit administration plan, which sets up reserve funds for the group as a whole but does not establish specific worker annuities until retirement time, has had special development recently. These plans are usually used for somewhat larger groups and averaged just over 2,000 persons per group. At mid-year, 70 such plans were in force, covering 150,000 workers. This represented a rise in the first half of the year of 70 per cent in number of such plans. In addition to these three major types of pension plans written by the life insurance companies, 1,400 insured pension plans of other types were in force, providing pensions for 200,000 persons.

While the amount of retirement income to be provided by the insured pension plans in force at the start of this year was known to be in excess of $1,100,000,000 per year, the eventual income under these plans will be much larger. The exact amount cannot be determined, as group annuities are reported on the basis of income provided by premiums to date, the other pension plans reporting total income at normal retirement age. The group annuities alone have set up annual income of $500,000,000 to date and under most of these plans each year's additional premium represents a full paid-up pension unit. The income to be provided at normal retirement date under the other plans amounts to $675,000,000.

The countrywide interest in pension planning, greatly stimulated in the past year, has resulted in many of the life insurance companies setting up special pension departments and extending to field representatives direct help by experts from the home office in establishing and servicing the plans.

46% of all ordinary life insurance policies on adults, but only 22% by amount of insurance, is now being written without medical examination, it is indicated from a survey of 25,000 applications completed by the Life Insurance Agency Management Association.

A special committee of Group life insurance experts has been formed to assist the government on problems arising out of government contracts and related group insurance matters. It is ready to serve as a liaison between the life insurance business and the various departments of defense wherever the need arises. The need for the services of a group of insurance experts in connection with defense contract renegotiations was demonstrated during and following World War II. Today the need is far greater, it is pointed out, because of the enormous increase in pension plans among large employers of labor. All costs enter into the renegotiation of these contracts as to the reasonableness of price, including Group and pension costs. The procedure has been for the defense departments having to do with these contracts to set up rules. This group of actuaries and insurance experts, each of whom is an executive of his

company, have made themselves available for consultation with any departments of government with an insurance angle entering into defense contracts.

One company has tried the experiment of varying its premium rate for single premium immediate annuities according to the tax rates in the different states. Such premiums are somewhat similar to deposits in banks. Many of the states do not tax them but other states impose a tax of 1 or 2% and, in a few cases, of more than 2%. Their president said, "There is no justification at all for a tax on annuity considerations, because such a tax is nothing more nor less than a capital levy. It is equivalent to confiscation by the state of part of the deposits in a savings bank account. The new plan provides for more equitable distribution of the tax burden, since it will be paid only by those who live in the states where such a tax is collected. But the tax itself is not equitable in principle. It tends to discourage, rather than encourage, thrift and self-help."

The Federal Income tax law governing life insurance companies has for many years been based in general on interest earnings in excess of those required to maintain the legal reserve. This originally produced taxes satisfactory to the Government, but as interest earnings decreased, these taxes decreased until most of the large companies had no taxes to pay under the law. The law has now been changed so that they will be subject to considerable such taxes.

In a review of Notable Achievements for the year published in most of the life insurance periodicals, Clarence C. Klockskin included the following:

"At the general election in November the voters of the state of Washington overwhelmingly rejected a compulsory disability benefit program which the legislature had approved, subject to the referendum mentioned. A short while ago a spread of disability benefit legislation seemed imminent. It did not materialize, however, and is not expected to assume large proportions in the forthcoming legislative sessions.

"A proposal to require stock insurance companies to register and file detailed investment information with the securities and exchange commissions failed of approval. A bill to make some of the provisions of the expired farm mortgage moratorium law a permanent part of the national bankruptcy act was blocked after life insurance and other farm lenders had objected to the bill's failure to assure secured creditors the right to have a public sale of mortgaged property.

"The administration's proposals for a national health program and to federalize the unemployment compensation system and thus dominate the operation of state systems made little or no progress. While these schemes will undoubtedly be reintroduced, close observers believe the newly elected Congress will turn a deaf ear to both proposals. The same observation applies to the proposed program of permanent disability benefits which the last Congress rejected."

In an editorial in another connection, The Insurance Field says "The most important development in the nation in 1950 affecting the life insurance business was without doubt the enactment of an expanded Social Security act . . . . " The coverage was broadened, both in that about 10,000,000 more people will be covered and the benefits, both to present and future recipients, will be greatly increased. As it is assumed that the essential details of the changes will be covered in another review herewith, comments here are limited to the life insurance business. The effects on insurance companies, in general, will be the same as on other business, such as increased contributions on some employees and the changed relationships probable between old-age benefits and the companies' regular pension plans. A greater effect, however, is that, in general, life insurance agents are specifically covered though they were specifically excluded by a previous law. Agents' remuneration, in general, is by commissions on policies sold and renewed involving numerous transactions which fluctuate, depending on when agents sell new policies and upon when policyholders pay their renewal premiums. Questions arise, for instance, as to whether the agents' contribution to the Social Security tax should be deducted from each small renewal commission as paid or deducted periodically. There will be innumerable other questions, such as when the limit for the year has been reached when an agent has placed business in more than one company. But probably the biggest impact of the law will be in connection with selling life insurance. The agents should recommend insurance programs to their clients to provide old-age income and, of course, a change in the amount of such prospective income from Social Security should be taken into consideration in such insurance programs. In any event, the mere fact of the change gives agents an opportunity to further discuss such programs with their clients and to open up the subject with possible new clients.

As to unfinished business at the end of 1950, aside from the more or less recurrent problems, the principal ones not previously mentioned appear to be, first, a revision of the New York State Expense Limitation Law which has been worked on for a couple of years by both companies' representatives and the state insurance department and, second, proposals which have been made for meeting any possible disaster that might result from a war, if such should eventuate. Most of the discussion is centered about an atomic bomb catastrophe but there is some about any type of war disaster in the United States, ranging from ordinary bombing to "mass murder of the civilian population." These proposals were discussed by Samuel Milligan at the recent meeting of the Life Insurance Association of America. They propose some form of "pooling of excess losses due to enemy action in the home area" whereby a company with unusually heavy losses would be largely protected by other companies. The tentative proposals call for three different pools: one for ordinary, another for industrial and a third for group insurance.

Property and Casualty Insurance

by

James R. Gregory
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By far the most important insurance news of 1950 was the windstorm which struck northeastern United States on November 25. With over one million property damage claims and at least $150 million in insurance losses, it was the second largest catastrophe in American insurance history. It was exceeded only by the San Francisco earthquake and fire. The storm had its origin on November 24 in western North Carolina and eastern Tennessee. It swept from there northeasterly across West Virginia into Pennsylvania, New York and New England, doing its most extensive damage on November 25. The following day it blew itself out in western Ontario, Canada.

One of the most unusual aspects of this loss was the manner in which the full extent of the catastrophe became evident. The first estimate issued by the National Board of Fire Underwriters, approximately one week after the storm, was that it amounted to $12,500,000. Storm damage estimates were then continually revised almost weekly until the final estimates of storm damage were arrived at early in January 1951. By far the largest amounts of loss were received from consequential damage of weather and exposure to the elements after the wind had blown away roofs of dwellings and buildings. Contents losses in manufacturing plants and warehouses in some instances amounted to several hundred thousand dollars from these causes.

Most of this loss was insured under Extended Coverage Endorsement. This endorsement has been sold widely in the northeastern part of the United States since the 1938 hurricane, although it has been apparent from previous loss ratios that this portion of the country is not generally susceptible to windstorm losses. In the years since 1938 a very favorable loss ratio has been obtained by the property insurance companies on Extended Coverage in this portion of the country; pressure was developing in 1950 to reduce Extended Coverage rates.

However, as a result of this windstorm many companies showed an average loss ratio on Extended Coverage in 1950 of 10 to 20 times their premium writings in the area, and the average loss of all companies writing Extended Coverage in northeastern United States was almost five times their 1950 writings.

So it has become apparent to Fire insurance underwriters that the experience of any one year, or a small group of years, is not sufficient in determining adequate Extended Coverage rates. There must instead be reflected in the rate a suitable catastrophe loading. This storm demonstrated to the satisfaction of rating jurisdictions and

insurance producers that the hazard of windstorm is not only nation-wide but catastrophic in all territories.

Fire Insurance

Multiple Location Rating continued to occupy the attention of the Fire insurance business in 1950. Since the passage of the all-industry rating laws, accomplished in most states during 1947 and 1948, Fire insurance underwriters have been engaged in a discussion as to the proper method to rate Fire insurance on contents of buildings at multiple locations under the same ownership, particularly when these locations are in several states. The Multiple Location Service Office Plan of rating Multiple Locations risks, developed by a committee headed by Mr. Ivan Escott, an insurance executive, had been developed and put into effect during 1949. It provided for the adjustment of specific rates on individual locations on the basis of the country-wide coverage for the group of risks being rated. The adjustment provided further for insurance on a 100% coinsurance basis and a debit and credit adjustment rate based on the experience of the insured, during a period of five years for Fire insurance and 10 years for Extended Coverage, Vandalism and Malicious Mischief. The number of locations insured under the Plan, was also given consideration in determining rates, as well as the class to which the risk belonged.

But to this plan serious objections arose from a minority of the Fire companies. They argued that the Multiple Location Service Office Plan produced inadequate rates and thus deprived them of property without due proof of law. They further argued that the plan unfairly discriminated between risks, because the large buyer was able under it to obtain lower rates than the smaller buyer of insurance. They showed that by varying the number of locations and property covered, the type of rating base and favorable experience factors could be enhanced and poor loss ratios minimized. This made it theoretically possible for two apparently identical retail establishments to receive widely differing rates for substantially the same coverage.

Despite all these many objections, in the closing days of 1950 the New York Insurance department, where the principal fight was being made, rejected completely the arguments of the minority companies and established the Escott Plan as properly within the jurisdiction and intent of the new rating laws. At the same time the New York Commissioner opened the door for the minority companies to file their own rating plan concurrently. This they promptly did, so the opening days of 1951 saw available to insurance producers and buyers two Multiple Location Rating Plans — the Multiple Location Service Office Plan and the so-called America Fore, or Opposition Plan. Competition and the insurance buyer, it was determined, would make the final decision as to the most suitable method of rating in this memorable dispute.

Installment Premiums

Installment premiums continued to attract some attention, but not as much as the startling developments of 1949. At the final meeting of

the insurance commissioners in 1950, a stormy session, was the report of the insurance department technicians on treatment of installment premiums on term policies in annual statements of insurers. Some opponents felt that if those recommendations as to handling installment premium accounting were put into effect, the companies would be issuing false and misleading statements, because of reporting charges for insurance servicing in connection with annual payments as premium income.

But at least one state, Massachusetts, knocked out during 1950 the rule requiring advance payment premiums. This apparently upheld the installment plans being offered by various insurers and presaged a wide variety of installment plans, eventual slicing of present term discounts on Fire insurance, and a new departure from century - old precedents.

Deductible Fire Insurance

For many years it has been the custom among American insurers to avoid the writing of tremendously large Property insurance risks. This situation developed not through choice, but through competition of the London insurance market with its wide flexibility of coverages. It offered opportunity for American insurance buyers needing large amounts of coverage to obtain policies especially suited to their own needs and ability to pay.

The answer to this problem, from the standpoint of both insurance buyers and American insurers, was brought further along in 1950 with the development of deductible Fire and Casualty coverages. Insurance Company of North America took the lead in 1950, filing in many jurisdictions a catastrophe plan of Fire insurance with a deductible on a "per occurrence" basis of at least $100,000, and, if less than $500,000, not less than the amount in excess of a maximum loss reasonably expected after considering the loss history, construction, occupancy and protection of premises of the risk.

The plan had a premium based on underwriting judgment as applied to a number of factors. For example, for a non-hazardous risk, the factors would be between $5 and $15 per $100,000; for a low hazard, the charge would range from $15 to $40; high hazard would range from $100 to $200 and severe hazard from $100 to $300. The plan was advanced as necessary for property owners who then were either complete self-insurers, or who place their catastrophe risk abroad.

Other companies soon followed this lead, and soon a number of somewhat similar plans were made available. The plans are apparently successful; before the end of the year, a trend toward writing this type of coverage in American companies was discernible, thus encroaching on the last subdivision in American insurance where foreign insurers still secure the bulk of premium volume.

Overall Underwriting Results

Property insurance made startling gains in 1950. While in losses the year was not quite so favorable as the banner year 1949, the in-

creases in all fields were outstanding. Premiums earned by all insurers in 1950 was $2,803,978,357, an increase of almost $400,000,000, or 14% over 1949. Assets of all types of insurers rose almost $1 billion, from $6,151,148,555 in 1949 to $7,110,622,970 in 1950. But loss ratios increased 5% — from 46% in 1949 to 51% in 1950. This in itself could not seriously impair the overall operating ratio, however, which was still a satisfactory 88.8%. Of the major accessory lines, only Extended Coverage was unsatisfactory; here, the northeast windstorm brought the overall country average for losses alone, without addition of expenses, to 86.2%.

For many years, one problem in the Inland Marine field has been the heavy loss ratio on full coverage Personal Property Floater. Traditionally, most of the premium on the Personal Property Floater was developed on the full coverage form. The appeal of full coverage was what originally helped in the introduction of the policy, and even as late as 1946, $16,462,000 of premium was developed on the full coverage form while only $9,000,000 was written on a deductible basis.

The year 1950, however, saw a revolution in this trend. Full coverage Personal Property Floater last year declined to $12,616,000. But at the same time, the deductible Personal Property Floater was increasing to an annual premium volume of $27,113,000 — more than twice as large.

New Package Policy

A new package policy for homeowners was issued by one company during 1950. The new policy includes in one package Fire, Extended Coverage (except that the Steam Boiler Explosion exclusion has been omitted and the amount of insurance not reduced by loss payment); theft from within premises, premises liability for both bodily injury and property damage, and Medical Payments insurance.

War Risk Insurance

1950 saw the involvement of the American forces in the Korean War. This renewed interest in War Risk insurance. During World War II War Risk insurance was purchased by insurance buyers through existing insurance organizations. Then the federal government, through the instrumentality of a War Damage Corporation, reinsured war losses thus written. But since practically no war losses were incurred during World War II, the premiums from this operation were, upon the conclusion of the war, returned to the general funds of the federal government.

In addition to War Risk insurance on property, it has now become apparent that other hazards require federal assumption of risk. Presently, Workmen's Compensation policies in the United States are not written to exclude War Risk clauses; any bombing of American industrial plants, a prospect not beyond the realm of possibility, would undoubtedly result in heavy Workmen's Compensation losses if the bombing occurred during working hours. For this reason, proponents of war risk legislation in Congress have suggested the establishment,

under a revised War Damage Corporation, of 100% reinsurance of war losses under Workmen's Compensation by the War Damage Corporation.

But the confusion resulting from determining the exact manner in which Workmen's Compensation War Risk should be reinsured resulted in no action being taken on War Risk insurance during 1950; it is expected that 1951 will see accomplishment of a War Risk law, both for property and individuals, on a permanent basis.

Disability Benefits Law

The Workmen's Compensation laws have been accepted for so many years that they have come to be looked upon as an integral part of the American industrial scene. These laws provide compensation for workers injured while in the course of their occupation. Little, however, had been done for coverage for workers while off the job until four states took the lead in establishing insurance, known by various names in various states, but which is essentially Off-the-Job Workmen's Compensation. This new type of disability benefit was put into effect in New York on July 1, 1950. It provides much the same type of benefits, with statutory limits, etc., as has been previously provided by Workmen's Compensation for on-the-job injuries. Somewhat similar laws presently are in effect in New Jersey, California, and Rhode Island. The New York law, latest and most important to go into effect, is modeled very closely on Workmen's Compensation for on-the-job injuries. It is expected that this idea of providing benefits as substituted for wages lost during periods of disability, whether occurring on or off the job, will continue to grow.

Legal eTsts of Public Law

The first judicial interpretation of the regulatory provisions of Public Law 15 resulted in a victory for the insurers in 1950. The U. S. Court of Appeals in St. Louis upheld a decision of the Arkansas Federal Court, which directed judgment on behalf of the defendants in the case of North Little Rock Transportation Company versus Casualty Reciprocal Exchange, et. al. The principal defendant in the case, however, which was a treble damage action under the Federal Anti-Trust Laws, was the National Bureau of Casualty-Underwriters and approximately 50 of its members and subscribers.

The plaintiff was a taxicab company which challenged the legality of a rate established by the National Bureau. The company based its case upon various grounds, including contentions that the regulatory provisions of the new Arkansas Rate Regulatory Law following the all-industry model were invalid, that the operations of the Arkansas Assigned Risk plan were illegal, and that the rating activities of the defendants constituted coercion and intimidation under the Federal Anti-Trust laws. But the opinion of the court of appeals was unanimous in establishing that:

1. That regulatory provisions of Public Law 15 are constitutional;

2. The Sherman Act is not applicable to cooperative action among insurers in rate making and related matters, to the extent that such activities are regulated by state law;

3. Operations of the National Bureau and similar rating groups are legal and do not involve coercion or intimidation;

4. The all-industry bill enacted in Arkansas is a valid regulation and does not violate the Arkansas constitution;

5. Operation of the assigned risk plan in Arkansas is lawful.

Largest Robbery Loss

One of the largest robbery losses of all time occurred in Boston during 1950 when an office of Brinks, Inc., transporters of money and securities, was held up and robbed of more than $1,000,000.

Automobile Insurance

Another successful year was experienced in 1950 by almost all the Automobile lines, although loss ratios were rising. A continuing marked trend was noticed toward higher property damage claims. Traffic deaths were up in 1950 and, all-in-all, higher replacement costs and higher bodily injury settlements increased Automobile insurance costs.

Summary

As can be seen from the above, not much new happened to Property and Casualty insurance in 1950. Instead, it was a year which resolved some old and perplexing problems, while renewing others which the business met, and successfully surmounted, in previous years. It was a normal insurance year.

SOCIAL INSURANCE

by

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I. *1950 — The Twisted Field-Glasses*

1. *Distortion.*

This is my seventh annual summary on Social Insurance. This year's subject is "The Twisted Field-Glasses." I have long watched Social Insurance distortions. While they have been present in many ways, I have particularly noticed:

1. Warped assumptions as to who can save, how much they have saved and how they have done it.
2. The exaggerated extent of personal incapacity and bad sportsmanship among our American citizens.
3. The faulty division of personal responsibilities between the citizens themselves, their employers, their families, the Government, local, State and Federal.
4. The irresponsible use of terms like insurance, rights, premiums, self-sufficiency, for Governmental taxes and benefits.

These distortions are warping the thinking of the gullible and the unwary — hypnotized perhaps by a twist of the wrist. Men I had supposed to be intelligent and responsible seem to be joining those gullible and unwary ones.

2. *The Legislative Fiasco.*

For three successive years now, I have tried to add to the Social Security education of, respectively, the Advisory Council to the Senate Finance Committee, and the Senate Finance Committee. The Advisory Council did not hear 'witnesses', but I was advised that I could submit a statement in writing. I did so. I was able to address the House Ways and Means Committee twice. I was asked to limit my first appearance to fifteen minutes. At the second appearance I planned on half an hour. In both appearances, questions stretched the time. I was granted half an hour by the Senate Finance Committee in 1950, with permission to file additional material. Such appearances are most instructive to the witness. Each audience is unique. It had developed its enthusiasms and its prejudices *before* he appears — and if he is to be heard, there must be something arresting in what he says and in the way he says it.

In the 1950 Senate Hearings, of the Finance Committee, the Administration's witnesses spoke first. They had plenty of time, and the speeches were rather well integrated with each other. The more

critical witnesses came later. As Lewis Meriam has reported, basic administrative material is hard for the witness to secure from the Administration. Most speakers were limited to ten or twenty minutes. Most of them spoke in ignorance of the previous conditioning of the audience. Such testimony as that of Monsignor O'Grady and of Lewis Meriam had an arresting quality — carrying an appreciation of some of the deeper significance of such laws.

The three volumes of the testimony may lack the dramatic quality of Browning's "The Ring and the Book," but the Washington speakers had fully as many ways of telling a simple story, and read in sequence 'at a sitting' tells as much as the reader's back-ground warrants. There is no evidence that the Committee members — few of whom were there at one time — had opportunity for full reading. The summary prepared for them seemed to me a striking example of the trick glasses. Perhaps only the Administration's stalwarts who followed the two month's unfolding could have appreciated how they 'got away with it.'

Following the hearings, the committee consideration was apparently afflicted by 'me-tooism.' Such earlier flashes at the Hearings as Senator Millikin's appreciation of inflationary troubles, and Senator Taft's inquiry of the Social Security Commissioner, "Why do you call it insurance? You know it isn't insurance" seemed to have been lost later.

Toward the end of the Senate Hearings on H.R. 6000, Senator Butler recommended the adoption of universality and immediacy of cash benefits to the aged. Senator Cain presented the full basis of Social Budgeting. Senator Cain had received 100 answers to a letter of inquiry he had sent to a well-selected list of prominent citizens. While he had too little time to present these letters on the floor of the Senate, he read 38 of them into the Congressional Record of June 16. On June 20, his last minute statement as to why he could not support the windfalls so anomalously determined in H.R. 6000 was a veritable gem. There were but two dissenting votes against H.R. 6000 in the Senate - from Butler and from Cain. At this legislative fiasco, I felt as uneasy and unhappy as though the results had surprised me.

3. *Discovery.*

In that mood of deep unhappiness, my wife and I took off for the open beach at Cape Hatteras. And looking at the ocean there, we made a discovery. I had trained the field-glasses on a triangular fin rising above the water out there in the surf, where we were about to go swimming. Was it a porpoise or a shark? Absent-mindedly, I turned the glasses over - looking through the big instead of the small end. Now the doubtful creature was further out - no longer a menace to our swim in the near-by breakers. Forward and backward I turned them - first enlarging the gulls and those bulging-eyed, ghostly fiddler crabs, then cutting down the waves, shoving the boats out to sea.

4. *The Double View.*

Yes - this was it. This was what I had been struggling for years to understand. I was discovering the baffling thing about most of the

Social Security programs. They had been devised after looking through strange trick field-glasses. The right eye-piece was normal - you looked through the small end of the barrel and saw things magnified. But the left eye-piece had been reversed. Using that, things were diminished - or far away and quite unimportant.

I have not seen the glasses on the market - but they explain OASI to a T. In determining the need for taxes, the view comes from the left eye. In determining the need for a given benefit, glances are taken through the right eye-piece. So it was possible to equate taxes of two cents with benefits of a dollar and feel that they balanced! And it was possible to look through the left eye-piece at today's needs - and make them seem distant and unimportant. The glasses make tomorrow's beneficiaries more important than today's!

Remember that with the trick glasses the right-eye view is magnified, the left, 'minified'. (There should be such a word). In demanding socialized medicine or permanent total disability benefits - the extent of the existing facilities for dealing with the need is viewed with the left eye. In discussing compensation to doctors and druggists, there is a tendency to talk after looking with the right eye - they should have more income. Everyone is to get the best of care. That seems to require right-eye application for most of the care, which cannot be the best. No one is to be inconvenienced by his payment - left eye work. Lasser, in his little manual "Your Social Security", seems to say, "you paid for it" - right-eyed viewing that - to people who have paid some two cents now for a dollar of benefit.

There is no use in pushing the analogy too far - but I can assure you I have only indicated the usefulness of the trick glasses. Trying them out, I find I can afford butter rather than oleo, Steak rather than chicken-wings, and a Lincoln rather than a Ford. If I am to get a 30 to 1 return in O.A.S.I., why not use the magic glasses for more appealing things?

5. *Other Experimenters.*

Probably the first use of the glasses was by the Iron Chancelor. Bismarck saw how all could take in each other's washings. The International Labor Office (I.L.O.) outlines the wonder of tri-partite finance. In England in 1925, the financing of Old Age and Survivors Insurance was handled by it. A rate payable for about 50 years was determined for 'going-to-work' persons of 16. If contributions accumulated for about 50 years at interest they would produce the appropriate life annuity at 65. But 'you couldn't expect men to be willing to pay all their own costs'. So there was a contribution from the employer and another from the State - the Exchanger - and really a fourth from compound interest. Since the funds were not saved for the future, but largely spent for benefits for those already old (and a very good thing that) very little of that 'contribution from compound interest' accrued in cash. There has been some slaying of the golden geese in England - for these things run into money - and Robin Hoods are also short-sighted. There are fewer wealthy and more of the taxes has

to come from those 'protected' - 'protected' by the twisted glasses to some extent. Recently in England the trick glasses have been mislaid - and the naked eye view is not so encouraging.

6. *Patent Bribery.*

Today, in the USA, a college professor of 66 learns that, if his college voluntarily joins O.A.S.I., and enough of his colleagues and the common labor on the payroll vote for it, he may teach 1½ years more, contribute $81 (more likely a little more) and then collect $80 a month for life, his wife at 65 to get $40, and at subsequent widowhood $60. He has to use the right eye on the taxes and the left eye on benefits, not to feel most anti-social - since his already retired colleague, who has no 'quarters of coverage' at all, is to get nothing.

Ministers with administrative jobs, who used to use the right eye on the ministerial aspects and the left on the administrative work - so as to get cheaper travel-rates - are now changing the eyes - to secure the administrative windfall of O.A.S.I.

I have as yet found no *untroubled* windfall-recipients in fact or in prospect. They don't like the hard choice between charity and rejection thereof. I found some who have elected to reject 'charity'. "The more fool you," some friends say.

But whether it is compulsory or optional, there is a natural tendency to balance accounts with the Government. One chap can tell how he 'was rooked out of thousands of dollars' by the Federal Government on a technicality years ago - and how this windfall will help him to get even. Each of us can figure out how he is a hardship case - presenting his bill to prosperity - which meets all bills for administrative incompetence.

The 1950 Social Security Amendments represent all too truly the application of the twisted glasses. We would be in a healthier condition today to face the tremendous requirements for defense had we instead viewed these things with a strong naked eye - and perhaps 'a valiant heart'.

7. *Delayed Cost Impact.*

In some parts of Europe they may have discarded the glasses. The I.L.O. tells us that France has reached Social Security contributions of about a third of payrolls. The Social Security requirements in Czechoslovakia, Yugoslavia and Belgium have reached about a quarter of pay. Social Security costs hesitate sometimes - as with us - but here is a suggestion of what lies beyond the hesitation. The twisted eye-pieces never *pay* the costs - they just *cost* the payers - later. Britain's all-purpose Social Security - and the old-age part is rather inexpensive - involves too much regimentation, too much hangover of "it's free". Whatever the merits of an employer's, when prosperous - before the golden-goose assassinations - voluntarily balancing an employee's contributions toward his 'fringe benefits', the method is open to much question for universal citizens' benefits. If all are in, and all pay, all simply can't be subsidized.

Recently the American Director-General of the I.L.O. has said that there has to be more production to meet the benefits to non-producers. An I.L.O. actuary, Lucien Feraud, shows that the inflation, which these measures feed, calls for correction in the benefits. *He* doesn't say that these measures 'feed inflation'. That is my own idea.

Few of the defects in the pre-1950 O.A.S.I. program have been corrected in the 1950 Amendments. The defects were predominantly two - one discrimination - one the cost quirks from the twisted glasses. The discrimination against women and orphan children, and among them, the special discrimination against the aged women, remain (though all types of benefits have gone too high). The long-retired worker - without benefits from the scheme - sees the greater largess to the new retirements - matched to a purely (or impurely) token payment in taxes, while inflation has so sadly shrunk what he has saved for himself. Using the trick glasses - the right on his shrinking income and the left on the prodigal's largess doesn't make him feel better long. He suspects too, that the trick glasses are partly to blame for today's panic buying.

8. *Inflation.*

There is a tremendous range of tolerance in a wide range of factors affecting costs in O.A.S.I. When men - counting costs they think they understand - count O.A.S.I. grants as worth 10% of their pay, and only have to kick in 1½% toward them, they may well feel that 8½% is available for spending. They may be using the trick glasses again - but here is a serious inflationary force - following the official 'glass-wielding'. If it isn't inflationary - I am ready to eat any hat I may happen to be wearing.

II. *Social Security Legislation of 1950.*

There have been three H.R. 6000s - the one the House passed, the one passed by the Senate, and th one agreed to in Conference. Since we were spared - in that third and last edition - certain things incorporated in the Administration's H.R. 2892 and H.R. 2893, considerable relief - and even satisfaction - has been expressed as to holding the Administration back. Yet the strategy of the Social Security Administration has ever been to ask for the most extreme benefits - following right-eye practice on the trick glasses - so that the compromise still-too-liberal Federal benefits will be viewed tolerently as a retreat from a straw-man. Thus a man who has earned over many years an average of fifty cents an hour - with a work-week of 48 hours - or $24 a week - who has now moved up to $56 a week, can be told that in addition to the big boost in current pay, he can expect his life income on this recent - perhaps quite a typical income - from O.A.S.I. A married man of 65 - with wife the same age - who has moved up less spectacularly - now at $100 a month in earnings, - can contemplate $75 a month retirement income. The sense of astonishment of such a man must be profound - particularly in such a case as a man with average life-time earnings of $50 a month, whose pension would be 150% of such average pay. And there are such men.

I am not giving many numerical examples under the new law. Some of its aspects are:

1. More job categories taxed, and the taxed wages listed for subsequent benefit-determination. Much of self-employment, save for the farmers, much of farm labor, some of the domestic service, some of the life insurance salesmen, some of the non-profit educational, charitable work, some Government work, not previously covered under civil-service retirement plans, and some rather off-hand additions, are now newly covered. It is doubtful how many of these are new persons, since well over half the population already had been covered, but as men move from job to job, this should be reducing lost quarters of coverage and non-tax-payment.

2. Liberalized formula - requirement of only half the quarters served from January 1, 1951 to the attainment of age 65, instead of from January 1, 1937 to attainment of age 65, but counting all quarters earned after January 1, 1937 toward the minimum requirement. The new basis is 50% of the first $100 a month of earnings, and 15% of the next $200. The old basis was 40% of the first $50, and 10% of the next $200, plus 1% a year of coverage as an increment. The minimum goes from $10 a month to $20 a month, the maximum to $80 from a variable maximum depending on years of coverage. Benefits to existing beneficiaries we are told have been advanced about ¾, and it is felt that future benefits may turn out to have doubled. Those who would not have qualified at all, and now do, have an 'infinite increase'.

3. Taxes are left for the present at 1½% from employers and employees, but the maximum wage taxed has advanced from $250 a month to $300 a month.

4. Increases in children's benefits by ¼ of primary benefits for one or more children which with other changes, will provide 80% of father's earnings over a considerable area - a pretty high 'floor of protection'.

5. Dependent husbands and widowers now constitute a new beneficiary category.

6. While retaining $50 a quarter as qualifying for employment credit, self-employment credit requires $400 a year, to count toward covered quarters.

7. Minimum possible contribution to qualify for benefits of $20 a month for primary, or $30 for aged couple is held at $4.50.

8. Increase in monthly earnings not counted as barring benefits from $14.99 to $50. Since more employment now 'covered', and intermittent employment can continue some benefits - conflicting liberalization and restriction present in work clause.

9. Addition of medical care payment to 'vendors of medical care', under public assistance.

10. Addition of 'permanent total disability' as another category of public assistance.

11. Labor Department's control over State Unemployment Compensation programs reduced.

The long drive for 'socialized medicine' continues, but bills rather than laws emerge - save for items (9) and (10) above. The Dean Clark Commission is at work. The Brookings study continues.

The O.A.S.I. benefit curves - aggregate monthly payments - moved up sharply in the fall of 1950, because of the 75% increase in existing benefits. Most newly qualified persons - old with very small wage records would seem to qualify for small benefits but results are not yet announced; although inadequate, as the phrase goes, a couple years of work in the defense boom can remedy that situation, rather magically. Benefits will continue to reflect small items through the right eyepiece. As frequency distributions are compiled, the evidences of capriciousness and discrimination will pile up. Aggregates will continue, disarmingly, well below intake for some time.

S. Res. 300 - a Resolution, calling for a study commission - maximum expense $25,000 - for the study of 'pay-as-you-go universal benefits', and other items, represents areas of agreement between Senators George and Millikin and Cain after some earlier disparity in the objectives. Fundamental study, as perennially has been postponed, and the history of the Advisory Councils has evidenced how long basic analysis can be avoided. Apparently both fundamental competence and full independence of direction from the Administration are necessary on the part of appointees to staff.

III. *The Setting of 1951.*

1. The Present Crisis.

Ever since the initiation of Social Security consideration, we have moved, in National affairs, from crisis to crisis. It is perhaps but natural that we have now reached one of the most ticklish impasses of all time. The Administration championship of the Welfare State (Dean Pound's Service State) is again shown by including $275 million in the 1952 fiscal year budget for the initiation of 'health insurance' — another innocent 'camel's head'. Since only $40 million is set down for bureaucratic staff development, this constitutes - as with the German precedents-contributions to 'defense'. Again the 'trick glasses'. We have regimentation, subsidy, intervention, everywhere, taking over virtually every department of life. In Europe, Asia and Latin America, the conflict between freedom and totalitarianism stands out. It is a major philosophic, and practical issue of the world.

To non-collectivists, in fact, it seems that the Administration is reversing the old law about hating the sin, but loving the sinner, by hating the sinner, while hugging the sin to its bosom. It both is and is not the same world of a year ago. Today's developments were in the cards then and, perhaps, had we seen them more clearly, the Social Security legislation of 1950 might have carried more wisdom. When

we really had the time to think, when it was very much up to us to think, adequate official thought was avoided, like the plague.

Many of the countries with whom we are working under the Marshall plan are tied up with previous 'commitments' for Social Security. I have seen no clear report integrating 'local social security finance' into the expectations from the United States. I understand that almost every ECA chief has a social security man. Quietly, a social security mission was sent to Japan. We do not know what these men are doing in piling up even more far-reaching entanglements than we have assumed here. Do we believe in the unthinking adoption of the welfare state? What has our adoption of H.R. 6000 meant in interpretations abroad? A recent I.L.O. report, perhaps banking on more of such 'thought control' here, did report the Administration's ultra-liberal proposed legislation under H.R. 2892 and H.R. 2893 almost as though its enactment were a foregone conclusion.

A whole subdivision of the Commissioner's Office in the Social Security Administration is handling these matters internationally and, I suspect, bureaucratically. Last year there was much world travel in the interests of Social Security - quite a contrast with 1937, when, while an official representative of the United States Government to an International Congress of Actuaries in Paris, to the I.L.O. in Geneva, to the British Social Insurance administration in London, I was required to pay my own transportation. We seem to be moving into the barbed-wire entanglements of the Welfare State with considerable insouciance. The points reaching my ears remind me very much of the well-modulated tones of Eliza Doolittle - in Shaw's Pygmalion - carefully spilling the beans as to her family's way of life.

2. *Wages - Prices.*

Since 1933 there has been little break here in the rising of wages per hour, nor in the fall in the buying power of the dollar. In spite of announced freezing of both, no one expects any such result. Throughout World War II, wages kept going up, and the dollar's purchasing power kept on falling.

3. *The Service State*

The New and Fair Deals have been based upon taking over the basic human or personal responsibilities in what Roscoe Pound calls the 'Service State'. This loss of personal freedoms (and that word carries with it the sense of both privileges and responsibilities) is the tragic accompaniment of the erratic 'trick field glasses view' that seems to replace the values of individual judgement by the non-balanced astignatism of the man who has forgot how to use his own two eyes.

4. *The Elections of November, 1950*

Here and there over the country, the November and earlier primaries, showed that the distortions of the trick glasses were being recognised. As one swallow may be the harbinger of Spring, so, certain episodes may show less distortion of vision.

5. *Bond Values and Money.*

The E Bonds are striking barometers of the awkwardness of inflation. I sometimes wonder whether the waterers-down of our buying-power hold none of them themselves. The man who finds his bonds plus accrued interest buying much less than could have been bought by what he put in, is also learning at advanced ages that the Social Security he had carelessly thought to be a life-annuity at 65 (and current phraseology in the Amended Law will minister to that misapprehension) may not really be more than a life annuity at 75. He begins to distrust 'Greeks bearing gifts'.

6. *The Trick Glasses.*

The motif of personal helplessness has been elaborated for 15 years by the regimenters. It isn't a healthy approach. For the enlarged responsibilities of today, our citizens need to say: "I can", with conviction. Pretending that men cannot provide for their own savings - lacking both the will and the way - the right eye has determined the benefits, while the taxes have come from left-eye viewing. The citizens for whom we have felt sorry have bought liquor and cars and the new television - luxuries generally. Social Security glasses are inflationary. As they get caught between the upper and the nether mill-stones, they will know at least one implement to blame - besides their own faulty eye-sight.

IV. *Some Reading Guides.*

We are all familiar with those 'mountain-top surveys' of science, history, economics and philosophy that seem to promise predigested wisdom by assured 'authorities'. H. G. Wells and Hendrik van Loon carried us pleasantly through History and the Bible, the publishers assuring us that at last it was all there correctly balanced and revealing. I have only recently finished the survey of Western Thought in the 'read faster and better' method, *Ideas and Men* by Crane Brinton, and that admirable survey of economic thinking by the slow and careful technique, 'Human Action' by Ludwig von Mises. Both are full of significant consideration of Social Security for the man sufficiently trained to reap the rewards of his own insight. There is no magic list of reading; each must be tailor-made to fit the reader. Yet, in my reading over the last year or so, I have found a lot of informative material. I have mentioned a lot of my reading in former reviews - with a fine catholicity. This year the list is perhaps less catholic and more selective - and less specific. I have just finished Lasswell's comments on the techniques of Soviet propaganda in the January, 1951 Proceedings of the Acadamy of Political Science, and am struck with my first-hand acquaintance with the methods he describes.

Everywhere I run across the prediction for the trick glasses and the unwillingness to 'see things whole'. Wars, peace-time interventionism, quantity production, power-politics - these are some of the things that tend to magnify or diminish our evaluation of such things as personal income, personal expenditure, personal reserves, fear, self-sufficiency, poise.

A Dun-Bradstreet graph of wholesale prices and hourly wages over a century shows two dominant items - as the chronology includes wars:

1. Wars - as a major factor - especially the decade of war from Mussolini's opening of the holocaust by the Ethiopian adventure, then the Spanish Civil War, Japan's China incident, leading into the World aflame in the admission that it was World War II.

2. The linkage of wages and prices - with 30 years of peace after the American Civil War, cutting out the Franco-Prussian War as not so seriously affecting us - when wages ran fairly steady and buying power nearly doubled for those 'constant wage dollars' - and the striking contrast in the planned economy era, where from 1933 onward the uptrend in hourly wages steadily accompanied by a fall in the buying power of the cheapened dollars.

There is a diminution of security from war. There is the contrasting gain in the receipt of more shrinking-value dollars, more half-way promises of security in later dollars, deliverable with - so far - a steadily shrinking value at retirement or other catastrophe. In their emphasis upon dollars instead of other values, it is impressive that the planners can neither guarantee the receipt of the dollars themselves, nor their value if and when delivered.

But dominating all these situations - as to Social Security - is the left-eye view of current presumptive needs, and the right-eye concern with the *distant future*. Out there, when Utopia is at hand, social security will seem minor. Should it be chaos, instead, that evolved, social security would be impotent.

The following references have greatly interested me:

1. *Latin-America.*

Three years ago, and again two years ago, I referred to Mr. J. Walter Dittel and Mr. Oscar Barahona Streber, two Costa Ricans then working in Guatemala. This year Mr. Dittel has written for a review in Columbia a story on Social Budgeting which has been further discussed by Prof. Zeledon of Costa Rica, both reports having been reprinted by the Guatemalan Institute of Social Security. These Spanish reports refer to Miles Menander Dawson, Prof. Nesbitt of the University of Michigan and the reviewer. Dittel and Barahona have also written papers for the I.L.O. organizations.

2. *Canada.*

The Joint Parliamentary Committee on Old Age Security, and Mr. W. A. Anderson of the North American Life of Toronto, together have recommended, and have explained the recommendation fully, a $40 a month pension for all citizens age 70 and over, to be handled through the taxing power. In Crane Brinton's lingo, "Ideas and Men" have been at work in conjunction.

3. *International Labor Office.*

Many have been accustomed to speak of the I.L.O. as a collectivist menace to the peace of mankind. It has long been 'collcting' data on Social Security, and in the last two years has issued several factual reports of great informational value. Both Americans here and abroad need the information they carry. One of the recent reports specifically shows the tendency toward current effectiveness - 'insurance progressing to security' - deferment being replaced by current budgeting. Lucien Feraud, Actuary, suggests a substructure to cope with inflationary trends - a minimum budgeting. A report on minimum standards outlines the goal of Governmental handling for high level countries as higher than for low-level countries. I would instead recommend lower Governmental benefits in high-level countries, where intelligent, competent citizens should less lean on the Government than do wards of the State in 'low-level countries'. There is a report from the Director-General, a North American, noting that if the producers of goods and services want to maintain their own standard of living, but also allocate to non-producers from what is produced, more production is in order. There is a world survey of 9 types of social security. There is a special story on France - whose benefits are largely paid now instead of deferred, where a third of the payroll is earmarked for social security. Sometimes in discussing legislative trends, the bureaucratic approach tends to treat the bill-factory work as roughly the same as enacted legislation. There is too condensed a treatment over a world-wide area, and perhaps a human desire to popularize causes and to increase the chance of legislation. As a reporter on the gain in the bureaucratic way of treatment of personal responsibilities, the I.L.O. is important.

4. *Federal Security Agency and Social Security Administration*

Nomographs, Analytical Notes, Actuarial Studies, Bureau Memoranda, Social Security Bulletins, Public Health Bulletins, Annual Reports, Trust Fund Reports, papers at meetings, symposiums, gatherings - here is a mine of official information (usually tackled with the bare hands), the constant building of doctrine, greater power and strength. The two large conferences on Aging and Youth and Childhood had not yet reached the reporting stage when this was written, but papers seep into publication repeating doctrinal bits of non-sequitur from the paper's line of approach - selling phrases. The precedent set by 'The Nation's Health' will be watched by the thousands brought in, who have been alerted to look for and to some extent recognise the 'selling blurbs'. The authors of these reports seem to be ghost-writers to some extent, with varying degrees of competence, training and guile. In printed reports, the blend of original authors, editors and censors may perhaps be illustrated by my own experience in writing in this setting, where after editing, sometimes statements had exactly opposite meanings from the ones intended. If they were referred back before printing, they were not so printed. There are ideological blind-spots in such a forcing-ground. It might be well if there were a Social Security Boswell working there. Perhaps there is. The funds are very large

5. *The Academic Groves.*

Here, too, are some traces of the trick glasses of Keynesian thinking, of Fabian socialism. It takes time to read the familiar authors, to study them, to understand them. Many of them seem quite ignorant of the facilities of thrift and insurance and personel self-reliance outside of Government and, at times, of arithmetic. It is from the groves that come most of the writers in the Federal Security field above, and here is a cooperating forcing-ground of mystic dogma. As to both groups, caveat emptor."

6. *The Insurance Business.*

Compulsory Governmental programs have been called insurance. A recent editorial in the Christian Science Monitor, headed "Insurance Should be Sure," recommended advancing the tax rate in O.A.S.I. two years ahead of 1954, so that more funds would be available for defense and 'thereby insure the insurance'. My reply to this editorial was printed on February 15 under the caption "Social Insurance is not Insurance, any more than Guinea-pigs are Pigs" Asserts Actuary. But, for years there have been committees representing Social Security in the insurance business, both life and casualty. The business has recently been filling some very awkward gaps - finding out and reporting what the business has done in the individual and mass protections aimed at the same presumptive needs as existing or proposed social security plans. There have been joint seminars by the insurance business and the academicians in Harvard and Nebraska as to the triple answer of the individual, mass programs and Governmental protections. I participated in these two, and also presented a paper 'Death 'n' Taxes' to the Health and Accident Underwriters Conference in New York - in print in their Proceedings, and now being run off in a reprint. I have also participated in discussions of Actuaries, insurance agents and college communities on this subject.

7. *United States Chamber of Commerce.*

The Publication of 'American Economic Security' by the Chamber, under the Editorship of Dr. Emerson P. Schmidt, has now covered many subjects over many years. To some degree its work has dove-tailed in with the thinking going on in the insurance business, and with that of business generally. Mr. M. A. Linton and Mr. R. A.. Hohaus from insurance, and Mr. A. D. Marshall and Mr. J. W. Myers from business, represent the type of consideration given. The Chamber follows proposed legislation closely. The material as published makes interesting reading.

8. *National Industrial Conference Board.*

This organization has developed a whole series of reports on Social Insurance, written by a rather diverse set of authors. Its summaries rely to some extent on the work done by the I.L.O., to some extent on the personal knowledge of the authors, to some extent on many other sources. On the whole the reports, in their brevity, sound too authoritative and lack quite enough specific reference to the elusive-

ness of the facts, and seem a shade over-tolerant of the bureaucracy whose influence shines through in spots.

9. *A.M.A. - Economic Research.*

Dr. Frank G. Dickinson's considerable body of reports has begun to build up an integrated view of doctors, medical care, costs, vital statistics, critical appraisal of recently sacred cows - a counterweight to the more verbose, but statistically less illuminating body of reports from the Federal Security Agency on these subjects. He shows that the American citizens have exercised choice on their expenditures, and that 'by and large' they prefer other things to extra medical care. He believes they should retain choice and not be put to the strain of 'getting their money's worth' out of the medical care taxes they are asked to pay. He suggests that the new refrigerator, car - and certainly home - strike the budget much more heavily than the medical bills. There is much information, and a dry Will Rogers sort of humorous philosophy in what he writes.

10. *Brookings Institution.*

Lewis Meriam, Karl Schlotterbeck, George W. Bachman and others have carefully and responsibly tackled financial, economic, budgetary, philosophic considerations on old age, pensions, medical care, and similar items of interest, with both idealism and cynicism. Some of the material they cover is loaded with dynamite. This note carries a tribute to men - knowing their own limitations - who are not frightened off the preserve by squatters who talk as though they had staked out an exclusive claim to the territory. Their contributions are high in vigor, balance and reader interest. I have not read the current book by Nourse on "The 1950s come first," but I suspect that it is in the Brookings tradition.

11. *Other Individualists.*

Dean Emeritus Roscoe Pound of Harvard Law School delivered an address at a September, 1950 meeting of the American Bar Association in Washington. Much of it appears in the ensuing December number of the American Bar Association Journal. He begins: "A Negro who used to work for my father had come from the West Indies and was never weary of talking about them. 'They have there', he said one day, 'a drink they calls planter's punch. And you know, Judge, those planter's punches they creeps up on you, surruptitious and clandestyne.' The service state, the state which, instead of preserving peace and order and employing itself with maintaining the general security, takes the whole domain of human of human welfare, except perhaps the welfare of our souls in the hereafter, for its province and would abate all economic and social ills and alleviate all individual distress through its administrative activities, has been creeping up on us in the present century after the manner of 'those planter's punches'." After this sentient approach, Dean Pound develops his discussion on "Law in the Service State: Freedom versus Equality" with so much documentation and logic that I hope his story will have a wide reading among non-lawyers.

Another lawyer, Leonard Calhoun (The Calhoun Report to the Ways and Means Committee) has recently written "How Much Social Security Can We Afford?" He shows the simple arithmetic that if we really gave the $100 a month benefits talked about so glibly as a minimum to 11,000,000 elderly citizens over 65, it would set back the average American family some $300 per annum. He discusses 'rainy day money'. His booklet carries even more message than meets the eye - on first reading. It is presented by the American Enterprise Association.

Dr. Elizabeth Wilson is actuary, economist, statistician and American citizen. She has recently made two visit to England - and while there has talked with all types of british citizens from the home domestic and factor worker to the Prime minister. She has written for the newspapers, has addressed groups of citizens, and is preparing a book covering her British observations. I expect that that book will be worth reading - as are her shorter notes. She has done one of the National Industrial Conference Board reports. She has covered the progress of the Rhode Island state-handled Temporary Disability benefits, and other articles.

There is a large number of individualists, informed, with such a 'social conscience', that they do not look at windfalls as a good, but as a lesser evil, the greater good being the right of personal choice, and the maintenance of self-respect. Some of them see that the discriminatory bribes of the OASI Amendments of 1950 lose both goods. Some write for the Foundation for Economic Education, Human Events. Analysis, the New York Herald-Tribune, the Wall Street Journal and the Freeman. Senators Butler and Cain, Congressmen Byrns, Mason and Curtis, belong here. They question the correctness of the judgements formed by using the trick glasses.

This category of sources suggests some of the places where the official reports, showing the regimentation, can be found, and also who are the persons who find such reports a challenge to sounder and more constructive American thinking.

V. *Social Security and Inflation.*

1. *Subsidy.*

As part of my insurance protection I have carried contracts that combine protection against death with a longer life annuity, payable at my attainment of age 65, and payable as long as either my wife or I survive, 10 years certain. The combination crudely resembles the O.A.S.I. benefits. For this protection over the years I expect to have paid some $21,000 - roughly 35 years at $600 a year. The contract lists the maturity value at age 65 as some $28,000. Purchased as a single premium special annuity today, at prevailing rates, because of the tightening of interest and improved mortality conditions it would cost considerably more than $28,000 for the annuity part. For this protection we have gone without other goods and services, voluntarily. and in the main, cheerfully. It is my family and myself that is involved here, and simple personal budgeting. The insurance com-

pany will probably be out of pocket on this set of policies, since both of us come of long-lived families. Looking at the graphs of declining purchasing power of the dollars involved, it is a gamble whether I would have had more fun spending the money as it came in, rather than to save it for the future. But as a responsible person, my choice was a straight-forward one. I needed both the death protection (and of course I had additional life insurance too) and the prospect of an old age income. Spending $600 a year for a $2500 annuity at 65, would not, in retrospect, have been too much outlay. The example is neither to show my wisdom nor my poor judgement, but to compare this provision with the O.A.S.I. provision which gives a man and his wife $1440 a year, dropping to $960 at the wife's death, or to $720 at his death and her survival. It seems to cost him $54 a year - for 2, 10 or more years. A tabular increase in tax is set down for 1950 and later on, but such taxes in a schedule do not mean too much. It took the Congresses of the 40's 11 years to make the first increase from $30 a year. I see no reason to expect any prompt increase now. It rather looks to the man paying it in as though his $54 bought more than half what my $600 buys. He may have to pay it for 2 years. My payment runs 35.

Such a man feels he has free funds to spend. He isn't sure of what he is going to get later. The tax-rates can change. The benefits have changed. The tax-rates have changed little - benefits much. He may have to wait a while for benefits, but he feels - and I guess he is meant to feel - that his benefits are practically free, courtesy of the Administration.

2. *Inflation.*

When the Murray-Wagner-Dingell Bills were being readied in rapid succession, A.F.L. sponsors for the largess said: "Of course labor expects wage increases from which to meet the contributions." This dumping of large gobs of personal responsibility upon the other fellow, and then feeling financially free of that responsibility, is seriously inflationary.

The system is deflationary, however, in self-respect. All the dole-receivers I have met are unhappy about the fact that what you get from O.A.S.I. is essentially "a free ride". It has recently set out to rob the older insurance agents, social workers, ministers, professors, of something that had been a valuable asset - self-reliance and self-respect. They know better than to believe the man who tells them "You paid for it." It steals the pride of "I can," and substitutes: "The rest of them are doing it. I guess it is my turn."

Here are the freak glasses. We write down the thrift requirement. We magnify the free cash. With the right eye, too, we further narrow our normal field of vision to the wind-fall benefit. If war is ace-high as an inflationary force, such social security is surely king-high. The system bulks too large in the economy. Look at the point it has reached in regimented Europe and Britain. It lacks the clear "without glasses" vision of the man with good eyes.

VI. *Clear Vision.*

There are some suggestions for a clearer vision in the book-shelf I have hung aloft. War makes for full employment, and seems to create wealth. The world emerges with bigger price-tags on the depreciated not-adequately-cared-for property, with more of the depreciated dollars as reserves, and with strains and destruction that takes decades, if not centuries to outgrow. But demagogs and ivory tower inhabitants seem able to refer to the deterioration, and the 'bargains for all" as progress. It may convince some, for a time.

I do not want a universal subsidy system to pay me anything that I have not earned. If I belong to the top 25% of the earners, when subsidy is done, *my* group is going to do the subsidizing. If *I* get subsidy, as an individual, it will be at the expense of my children and my children's children. There is no way to pay these benefits save by paying them. There is not going to be the help from interest that occurs in level-premium individual insurance, for contributions are paid only optimistically. I don't want to look through those trick glasses, magnifying what I receive and minimizing what I pay.

Unless we discard the warping glasses - unless the people have vision - they, or at least their freedoms, perish!

Part III — Association Activities

Minutes of Annual Business Meeting

The business meeting was held December 28, 1950, at five p.m. at the University Club, Chicago, Illinois, the president, Professor Erwin A. Gaumnitz, presiding.

The minutes of the last annual meeting, as printed in the March, 1950, issue of the *Journal*, were approved.

Treasurer's Report

A mimeographed copy of the treasurer's report was submitted and approved. (A copy of the report is reproduced on page 151.)

Report of Subcommittee of the Committee on Collegiate Preparation for Insurance Careers

Dr. Harry J. Loman presented the report of the special subcommittee appointed at the time of last year's meeing to confer with the committee on Relation with Universities of the Life Insurance Management Association. Dr. McCahan, who had been designated as chairman, was unable to attend and was represented by Dr. Loman as chairman of the Committee on Collegiate Preparation for Insurance Careers. (A copy of Dr. Loman's report appears on page 152.) The members present discussed the report at some length and moved to accept it and place it on file.

Reports on Other Standing Committees

Professor McCahan, chairman of the Committee on Professional Standards in Life, Property and Casualty Insurance stated that his committee had no report. Likewise, there was no report from the Committee on Insurance Teaching Aids. The secretary-treasurer, Professor Hedges, reported that the Special Committee on the Journal had been unsuccessful in its quest for funds and that no progress had been made on the project of initiating a program of more frequent issuance of the **Journal.**

The president, Professor Gaumnitz, as chairman of the Committee on Research, indicated that in his opinion the association could do little more than encourage research until more extensive means of publication and additional financing should become available to the association. The chairman indicated that the committee would continue its work in the hope that progress on these two objectives might ultimately be made.

Report of Special Committee on Summer Visitation Program

The president next called for the report of the Special Committee on Summer Visitation Program. The president stated that this committee was created for the specific purpose of studying one of the items discussed with the Life Insurance Agency Management Association's Committee on Relations with Universities by the subcommittee of this

association whose report had been presented earlier. Dr. Loman, as chairman of the Special Committee on Summer Visitation Program, reported for his committee. A copy of the report appears on page 154.)

Extensive discussion followed, centering around the subsistence rate to be allowed teachers participating in the program and methods for its determination. Further discussion of the administrative arrangements outlined in Article IX followed. The members present then voted to accept the report and to continue the committee to permit it to implement the terms of the report.

(Subsequently it developed that the companies desiring to participate in the program wished a member of this association to serve as chairman Executive Committee of this Association which approved this deviation of the coordinating committee. Their request was duly submitted to the from the terms of the report. Dean Laurence J. Ackerman was appointed to this association's committee to represent the association as a second member of the Coordinating Committee and also to serve as chairman of that committee.)

Council on Business Education

President Gaumnitz next brought up for discussion a proposal that the various separate academic associations in the field of business might benefit by joining together in a new association to deal more effectively with problems concerning all of these separate groups. Because of his inability to attend a meeting called to discuss this matter and to which he and the secretary had been invited, the president asked Professor Hedges to discuss the proposal..

The meeting had been called by the Committee on Relationships with other organizations of the American Association of Collegiate Schools of Business and was held in Chicago on December 27. Associations represented included: The American Finance Association, American Accounting Association, Beta Gamma Sigma, American Collegiate Retailing Association, American Business Law Association, American Business Letter Writing Association, Academy of Management, Associated University Bureaus of Business and Economics Research, in addition to our Association and the above mentioned committee of the American Association of Collegiate Schools of Business.

Problems with which a council of the type proposed might deal include the handling of accrediting of schools of business, standards for courses and curricula, representation before Federal and State agencies, and others.

The meeting concluded in the adoption of the following resolution:

Whereas to further the interests of Education in Business;

Therefore be it resolved that the individuals present recommend to their respective organization that a Council for Professional Education for Business be created by the interested orgranizations.

Be it further resolved that Organizational matters be deferred to a later date.

After discussion it was moved and passed that this association should appoint a representative to act as liaison with the American Association of Collegiate Schools of Business to learn future developments and to report to this association any specific proposal for action.

Kits of Forms and Policies

President Gaumnitz next asked for discussion of the problems which had arisen with respect to the make-up and distribution of kits of forms and policies now being provided insurance teachers in colleges and universities by the Western Underwriters Association, the Eastern Underwriters Association, and the Association of Casualty and Surety Companies. Specifically, these associations wished a statement from our association as to whether we preferred less comprehensive kits for use in principles courses, more extensive kits for advanced courses, or some other reorganization, so as to meet the needs more satisfactorily. The question was raised as to whether the life companies might not be brought into the program and also whether the various associations might not cooperate in assembling combined kits for principles courses. It was finally moved and passed that the problem should be turned over to the Committee on Insurance Teaching Aids to work out a satisfactory arrangement with the various associations involved.

Subsequent Meetings

The President reported that our next annual meeting is to be held in Boston and that Mr. Warner Danforth has been appointed as local Chairman. The Secretary reported that if we should follow our customary practice of meeting with the Allied Social Sciences our meetings would be held in Chicago in 1952, somewhere in the East, but not in New York in 1953, somewhere in the Mid-west, but not in Chicago in 1954, and in New York in 1955.

Report of the Nominating Committee

Dr. Davis W. Gregg reported for the Nominating Committee. Nominations were as follows: President, Professor Erwin A. Gaumnitz, Vice-President, Professor C. M. Kahler, Secretary-Treasurer, J. Edward Hedges, Member of the Executive Committee, term to expire in 1953; Professor Charles C. Center. The report of the Nominating Committee was accepted and the slate declared elected unanimously.

Acknowledgements

The following acknowledgements were moved and passed: To the Western Underwriters Association for providing the stenographic services for reporting our business meeting; and to the American College of Life Underwriters and the American Institute for Property and Liability Underwriters for the breakfast which they had arranged the previous morning.

The meeting closed with the president's expression of appreciation of the work of Professor Kahler as chairman of the Program Committee and Professor Kahler's thanks to the other members of his committee.

Treasurer's Report

January 1 to December 31, 1950, incl.

INCOME

Cash on Hand, January 1, 1950			$1,444.57
Membership Dues (1950)		$870.00	
Advance Payment of 1951 Membership Dues		15.00	
Refund from Committee on Local Arrangements, Allied Social Sciences		19.07	
Ticket sales from annual dinner (1949)		1,635.05	
1949	$42.00		
Others	51.35		
Advertising in Proceedings:		93.35	
Macmillan Company	$45.00		
McGraw-Hill Book Co.	45.00		
Prentice Hall, Inc.	45.00		
Richard D. Irwin, Inc.	45.00		
Rough Notes Co., Inc	45.00		
Spectator Pub. Co.	45.00		
University of Penn. Press	45.00		
Less discount	$13.50)	301.50	
Total Income			2,933.97
Total Received from All Sources			$4,378.54

DISBURSEMENTS

Feltus Printing Co. (1,000 letterhead)	$13.00	
Hotel Biltmore (1949 annual dinner)	1,815.19	
Feltus Printing Co. (700 Journals & envelopes)	1,228.10	
Dieterle & Thompson (Audit of AAUTI books)	30.00	
Miscellaneous Expenses of Secretary-Treasurer	158.16	
Total Disbursements		3,244.45
Cash on Hand		$1,134.09

REPORT OF SUBCOMMITTEE OF THE COMMITTEE ON COLLEGIATE PREPARATION FOR INSURANCE CAREERS

By

Dr. Harry J. Loman

A special subcommittee of the Committee on Collegiate Preparation for Insurance Careers, appointed by President Gaumnitz, met with the Committee on Relations with Universities of the Life Insurance Agency Management Association in New York City on Thursday, December 29, 1949.

At that meeting the subcommittee from the American Association of University Teachers of Insurance was represented by Dr. Ralph H. Blanchard, Dr. Charles C. Center, Dean Herbert C. Graebner, Dr. Davis W. Gregg, Dr. Harry J. Loman, and Dr. Dan M. McGill. President Gaumitz and Dr. David McCahan were unable to be present.

The Committee on Relations with Universities of the Life Insurance Agency Management Association was represented by Stanton Hale, H. G. Kenagy, Richard Koehn, Clarence B. Metzger, and Charles J. Zimmerman. The Chairman of this Committee, Sayre MacLeod, unfortunately was unable to be present.

Charles J. Zimmerman acted as Chairman of the L.I.A.M.A.'s Committee and in his preliminary statement said that the Committee had four objectives: (1) to bring about a better understanding and better working relationship between colleges and universities and the institution of life insurance; (2) to help promote the introduction of life insurance courses into colleges and universities with particular emphasis on the consumer type of course; (3) to improve the method of college recruitment for life insurance careers; and (4) to cooperate with the university teachers of insurance in every way possible.

Mr. Zimmerman stated that this meeting had been specifically suggested with the thought in mind that the university teachers could help the Relations With Universities Committee in connection with several specific projects which the Committee will undertake. The acting Chairman listed these projects as follows: First, the establishment of a speakers' bureau, with the thought in mind of making available to placement officers of colleges and universities speakers to address career conferences — these speakers to represent the institution of life insurance; second, to establish a speakers' bureau for the purpose of making available to Deans of Colleges and Deans of Schools of Commerce speakers to address classes in connection with the economics,

functions, and uses of life insurance and related subjects. Speakers would be provided with detailed notes which would enable them to give from one to five lectures on these subjects. Third, the proposal to invite Deans of Schools of Commerce and Deans of Colleges to visit the Agency Management Association in Hartford for a two and a half or three day meeting, the first of these meetings to be conducted on a pilot basis to be held in the fall of 1950. Fourth, to discuss a plan similar to that instituted by the Economic Foundation under which life insurance companies could invite university teachers of insurance to spend from two to six weeks in Home Offices during the summer months, the companies to pay travel expenses and maintenance expenses during the period of the visit. Fifth, to explore methods by which the Agency Management Association and the Institute could help insure teachers by furnishing them with information and material which would aid them in teaching their courses.

A great many practical suggestions were made by the various insurance teachers in connection with the different recommendations which had been submitted by the L.I.A.M.A. Committee. These had to do primarily with the means by which the objectives of the L.I.A.M.A. could be better understood on the college and university campuses as well as the bases on which practical cooperation could best be established. In one of the proposed projects, namely, that of establishing fellowships under which insurance teachers would be invited to visit life insurance home offices during the summer months, was referred specifically to another committee of the Insurance Teachers Association which was studying the matter for all types of insurance companies.

In concluding the meeting, the acting Chairman expressed the thanks of the Life Insurance Agency Management Association and of its Committee on Relations which had been made by the insurance teachers who were present. He expressed regret that at the first meeting all of the help had flowed in one direction, namely, from the teachers to the L.I.A.M.A. Committee, but further voiced the hope that at future meetings this flow could be reversed and means discussed by which the life insurance companies could become more helpful to the teachers in their educational activities.

REPORT OF THE SPECIAL COMMITTEE ON SUMMER VISITATION PROGRAM

At its Annual Meeting in 1949, the A.A.U.T.I. authorized the appointment of a committee to work out the principles of a plan for college insurance teachers to spend time in the summer months at property and casualty insurance company offices for the purpose of observing and studying insurance company operations. In accordance with a request made prior to the appointment of the committee, life insurance was added to the committee's task.

After extensive exploration of the problem, the committee attempted to devise its report in such a way that it would include not only the principles but also some of the essential details of a plan that would be applicable to all types of insurance. The result of this effort is set forth below in what might be called a plan for 'Insurance Company Fellowships for College Teachers of Insurance.'

I. General Purpose and Scope of Plan.

The primary purpose is to increase teaching affectiveness.

Since the needs of the applicants for Fellowships will differ widely depending on their individual backgrounds the general scope of the plan should be flexible. Broadly speaking Fellows are likely to fall into three groups, namely, those who (1) spend all of their time getting an overall picture of company operations, (2) already have the knowledge of group one and wish to gain additional information in a special area of major interest, and (3) want some combination of (1) and (2).

It should not be necessary for every company participating in the program to make provision for Fellows in all three categories — however all three should be available somewhere in the program.

II. Companies Participating in the Plan.

All kinds of companies should participate in the plan, i.e., stock, mutual, board, non-conference, etc.

Each company participating in the plan should inform the appropriate administrative committee (as described in VI) of its willingness to conform to the general features of the plan with respect to eligibility of Fellows, selection procedure, duration of Fellowships, the burden of cost, administrative responsibility and procedure. Moreover, the success of this program necessitates the wholehearted support of top management of every company that participates in it.

III. Eligibility for Fellowships.

For the present the Fellowships shall be limited to full-time college teachers who have had at least one year's experience teaching insurance

in a college or university. This does not necessarily mean full-time teaching of insurance, but there should be a minimum of 60 class hours of teaching experience in the field of insurance.

IV. Time and Duration of a Fellowship.

Ordinarily fellowships are to be awarded for use during the summer months and for periods ranging from four to six weeks.

V. The Burden of Cost.

Any company participating in the program should bear (1) the cost of round-trip first class rail transportation between the Fellow's college and the location of the insurance company's office where study is to be undertaken and (2) a weekly subsistence rate that is uniform for all companies. ($50 per week is suggested — one-half payable upon arrival of Fellow at company's office and one-half at the end of one-half of the period of the Fellowship.)

VI. Responsibility for and Administration of the Plan.

Each group of companies participating in the plan should delegate administrative responsibility to a committee, e.g., a committee from the Life Insurance Agency Management Association could represent the life companies, a committee of the National Board of Fire Underwriters could represent its members, one member from each of these committees plus a member from the A.A.U.T.I. could represent the non-board and non-conference companies.

Although it would be desirable to have one single committee administer the details of the plan for all types of companies and company groups their differences are such that this does not seem feasible at present. To assure a maximum of uniformity there should be a coordinating committee consiting of the chairman of each of the group administrative committees and the chairman of an A.A.U.T.I. Committee who would serve ex-officio. The coordinating committee should act not only as the clearing house for all the plans but also keep all groups on a similar basis with respect to as many features as possible.

More specifically, the duties of each administrative committee representing a group of companies would be:

1. Ascertain from its constituent companies their individual interests and wishes with respect to the program.

2. Announce the availability of Fellowships.

3. Receive the applications from the Coordinating Committee.

4. Review the applications for Fellowships.

5. Make recommendations to companies for awards of Fellowships (see selection procedure).

6. Inform the coordinating committee of the Fellowship awards.

The coordinating committee should be responsible for acting as a clearing house for all the various company plans and attempt to keep them on a uniform basis with respect to eligibility, payment of a Fellow's expenses, date of announcing availability of Fellowships, date of announcing awards, etc. More specifically, the duties of the "coordinating" committee could be:

1. Receive all applications for Fellowships by a fixed date.

2. Transmit applications to the appropriate administrative committee.

3. Receive the results of the action of several administrative committees.

4. Inform each applicant for a Fellowship of the disposition of his application.

5. Make whatever public announcement of the awards it believes desirable.

VII. Selection Procedure.

1. An eligible person shall submit his application to the coordinating committee within a given time limit. The applicaion to be accompanied by a recommendation from applicant's dean, evidence of eligibility as described in III, and any other evidence that would indicate his qualifications for a Fellowship.

2. The coordinating committee shall transmit the applications to the appropriate administrative committee. Each administrative committee shall evaluate applications with due reference to the Fellowships available in its field.

3. Each administrative committee shall determine its own rules and procedures for the assignment of Fellows to the various cooperating companies.

4. Each administrative committee shall transmit the awards to the coordinating committees.

5. The coordinating committee shall inform the Fellows and make whatever public announcement seems appropriate.

VIII. Important Features of the Study Plan.

1. Although the primary purpose of the program is to give the teacher an overall picture of company operation, an individual company may indicate its willingness to provide Fellowships for any or all of the needs mentioned under "General Scope of Plan."

2. At the start of the Plan, it is expected that no single company will wish to award more than two or three Fellowships in any one year.

3. As menioned in an earlier portion of this report, top-management must give the plan enthusiastic support. Top-management should also participate actively in the operation of the plan.

4. With the exception of a brief orientation period, the details of the program should be adapted insofar as possible to the needs of the individual fellow. For Fellows in groups 2 and 3, the special interests should be ascertained before arrival so appropriate arrangements can be made.

5. Much of the time should be spent in interviews, attending committee meetings, etc. Details should be kept at a minimum. The Fellow is not likely to have the experience of actually working in any phase of company operation.

6. Each Fellow should be assigned to an advisor of at least junior officer rank, who will be his guide, counselor and friend for the duration of the study period. The advisor should arrange introductions and see that every facility of inquiry is made available.

7. It is not the intent of the plan that the teacher should be "entertained" during his Fellowship period. He should be engaged in serious study and must assume considerable responsibility for the success of the venture.

8. Each Fellow should submit a report of his observations and study to the appropriate administrative committee and the A.A.U.T.I. Committee described in IX.

IX. Role of A.A.U.T.I.

The A.A.U.T.I. should not attempt to administer this plan but it should coordinating committee, (2) make periodical reports to the A.A.U.T.I. consultation and advice for any of the group administrative committee or the coordinating committee, (2) make periodical reports to the A.A.U.T.I. concerning the progress and development of the plan and (3) whose chairman "of this committee" would be an ex-officio member of the coordinating committee.

New Members for 1950-51

Active

Hatcher, Samuel P.
1432 Clayton Street
Denver 6, Colorado

Herrick, Kenneth W.
School of Business Administration
University of Connecticut
Storrs, Connecticut

Howard, Bion B.
School of Commerce
Northwestern University
Evanston, Illinois

Howard, W. M.
School of Business Administration
University of Idaho
Moscow, Idaho

Krogh, Harold C.
Box 84
Drake University
Des Moines 11, Iowa

Kubelius, Thomas C.
X-5 Hall
Lehigh University
Bethlehem, Pennsylvania

Parizeau, Gerard
507 Place D'Armes, Room 311,
Aldred Bldg.
Montreal-1, Quebec, Canada

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